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SMART INVESTING

Alternative-energy run-up out of gas

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There was energy in President Bush's State of the Union Message about oil addiction this week.

It powered alternative-energy stocks during the hours leading up to the speech, but was followed by a brownout for investors.

So if you are thinking the president's speech has opened new vistas for investors, the excitement may already be subsiding.

The stocks of small, development-stage companies that use wind, sun and grain to make energy have jumped sharply since the beginning of this year--propelled by government incentives from California, Germany and elsewhere to persuade consumers to part from oil and try alternatives. Investors who got wind of rumors about the speech Tuesday thought new U.S. incentives would stimulate the industry too.

They drove many alternative-energy stocks to 52-week highs Tuesday, but they backed away.

The WilderHill Clean Energy Index, which was up about 23 percent during just the first month of this year, dropped 2.3 percent Wednesday and an additional 0.3 percent Thursday.

It was confusing for small investors who figured the opposite would happen when the president embraced alternative energy in his speech, said Robert Wilder, who designs the index, which is used in the PowerShares WilderHill Clean Energy exchange-traded fund.



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But the decline is not surprising, said Matthew Patsky, who invests about 20 percent of his Inslow Green Growth mutual fund in alternative-energy companies.

"These companies are closer to being a real business than in the past, but they need both a carrot and a stick to get there," he said. "And the president offered neither a carrot or a stick."

The stocks of solar energy companies, for example, took off in early January after California passed laws giving tax cuts to consumers who use solar panels.

But Patsky said instead of hearing about similar tax incentives nationally, investors simply heard the president promise increased spending on alternative-energy technology--22 percent over current levels. That sounds large but isn't, he said.

Michael Eckhart, president of the American Council on Renewable Energy, estimates the increase about \$100 million.

"That's trivial," he said, adding that it's "nothing" compared with Exxon Mobil's \$36.13 billion in 2005 profit.

Still, while it disappointed investors, he thinks that if the White House continues to use the bully pulpit to tout alternative energies, the message may propel some fledgling companies to profitability because decision-makers at utilities may become more willing to adopt alternative-energy strategies.

Meanwhile, Nancy Floyd, a founder of the Nth Power venture capital firm, said even without incentives, alternative-energy companies are picking up steam.

"Investors are becoming increasingly concerned about oil supplies and prices as demands of a global economy intensify.

"Any disruptions" such as Hurricane Katrina, she said, "cause a spike in price" for oil.

"Oil and concerns are driving investment, she said. In 1999, less than 1 percent of venture capital flowed into alternative-energy companies. By 2004, it was 2.6 percent--or \$710 million. That compares to information technology, which is 18 percent.

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