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## Alternative Energy and Stock Volatility

<http://www.investmentnews.com/> Advisers lukewarm on alternative energy [Jeff Benjamin](#)

February 5, 2007 DETROIT – The Bush administration’s push for an increased use of alternative energy has shed new light on an emerging category of relatively untested and untapped investment opportunities. Recent market performance of the alternative-energy sector has shown the category moving in the opposite direction of the broad equity market over the past several months. Over the 10-month period ended last Tuesday, the PowerShares WilderHill Clean Energy (PBW) exchange traded fund declined by 22%, while the Standard & Poor’s 500 stock index gained 9.4%. Some financial advisers think that it is too early to start allocating client assets to investments in companies developing alternatives to traditional fossil fuels, but others compare the environment to the early stages of the technology bubble. “This is the new S curve of innovation, and there’s probably been no greater time in history for this sector to move its way into the masses,” said Sam Jones, president of All Season Financial Advisors Inc. in Denver. Puzzling performance The issue with which most advisers are struggling involves the riddle of investment performance when it comes to alternative energy. “We started looking into this last March, because it seemed like the kind of win-win situation that you could put money into until the end of time and do well,” said Matthew Paz, an investment analyst with RegentAtlantic Capital LLC in Chatham, N.J. Bekka Lindstrom Ultimately, he said, his firm, which manages \$1.6 billion in client assets, decided against any immediate investments in alternative energy. “There is tons of volatility,” Mr. Paz said. “We think the roller coaster ride will continue at least until big business and government gets behind the idea of alternative energy.” A confluence of scenarios has contributed to the focus on alternative energy as an investment opportunity, according to a report released last week by Zurich, Switzerland-based UBS AG. President Bush’s newfound focus on renewable energy, the effect of Al Gore’s movie, “An Inconvenient Truth,” and a report last week from the United Nations on global warming are some of the things contributing to an increased environmental awareness, according to Mike Ryan, New York-based managing director for UBS. The environmental issues join the pressure of the higher cost of traditional energy with the more commercially scalable opportunities that are emerging in the alternative-energy sector to set the stage for businesses in the alternative-energy space, Mr. Ryan said. “Global demand for energy is accelerating, and at

the same time, people are facing a change in thinking in terms of meeting that demand,” he said. “They’re also considering the impact on the environment.” Even considering such claims that the time is ripe for alternative energy, some managers and advisers warned that it might be too early for most investors to start looking seriously at the category. “I would stay away from [alternative energy] right now,” said Bob Nushbaum, president and founder of Pittsburgh-based Middle America Planning Inc. Those who are getting involved, such as Mr. Jones, are approaching it as one might have approached technology stocks in the 1980s, before the market was flooded with brand-new public companies and mutual funds offering exposure to the tech sector. “Right now, it’s too speculative for mom-and-pop investors,” he said. “You have to stay involved to identify the winners, because these are not the kinds of stocks that you sit and hold for a long time.” As in the early days of the tech bubble, the financial services industry is scrambling to identify and package investments. Part of the problem is the limited number of publicly traded pure-play investments.

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There are about a dozen indexes now claiming to track alternative-energy stocks, but so far, only one investible exchange traded fund has been launched, the PowerShares WilderHill Clean Energy fund. “It’s a horse race to try and come out with funds,” said Rob Wilder, managing director of WilderShares LLC in Encinitas, Calif. “Right now, all the indexes are similar,” he added. “And that reflects the limited universe of pure-play companies.” The fledgling nature of the category is best illustrated in the volatility of the PowerShares WilderHill Clean Energy ETF, which shot up 47% over the first four months of last year. It has since fallen by more than 26%. “This is very much an emerging industry, and something people will need to start considering as part of a portfolio allocation,” said UBS’ Mr. Ryan. “But you’re going to see winners and losers – not just a straight line of uninterrupted growth.”