Excerpt from Wall Street Journal, December 18, 2006
http://online.wsj.com/article/SB116604607101749346.html?mod=yahoo_hs&ru=yahoo

Alternative Answers

In search of new kinds of safety

By GREGORY ZUCKERMAN

December 18, 2006; Page R4

….

Q: *Are there safe investments that tap the growth potential of the alternative-energy sector?*

A: There are two kinds of companies in this sector -- large companies that make alternative energy a small piece of their overall business, and much riskier, smaller companies that face imposing challenges as they race to develop profitable alternative-energy businesses. So it isn't easy to find investments that are both safe and likely to pay off handsomely.

Still, there are reasons to think this is a sector worth investing in. Though energy prices have fallen in recent months, there is a growing consensus that all kinds of alternatives to fossil fuels are becoming more realistic, in part because oil and gas prices remain high enough to make some of these alternatives a better business proposition than they have been in the past. A recent report by the think tank Rand Corp. predicted that ethanol, wind power and other forms of renewable energy could provide as much as 25% of U.S. energy needs by 2025, up from about 6% today. And President Bush has said his administration will speed up its alternative-energy push during the remainder of his term, with ethanol a focus.

The problem is that shares of companies focused on energy alternatives are especially volatile, in part because few have current earnings and the big profits -- if any are to be had -- are way down the road. Many of these companies have little more than business plans.

A number of advisers recommend that investors stick with a mutual fund or exchange-traded fund that bets on a range of alternative-energy companies, to reduce the risk of any one failing to fulfill its promise. The

PowerShares WilderHill Clean Energy fund (PBW) is a popular choice. This $700 million exchange-traded fund, which has gained about 7% in the past year, holds shares of a number of promising -- and risky -- providers of alternative energy. The ETF's largest holdings as of Nov. 15 included Ballard Power Systems Inc., a fuel-cell maker in Burnaby, British Columbia; OM Group Inc. of Cleveland, which makes chemicals for rechargeable batteries, among other things; and Energy Conversion Devices Inc., Rochester Hills, Mich., a maker of photovoltaic materials, which convert sunlight to electricity.

Gary Evans, an independent economist and trader in Santa Rosa, Calif., owns shares in the Clean Energy fund. He sees political developments, including the Democrats' gaining control of Congress, as a potential boost for the shares of companies offering alternatives to the carbon-based fuels implicated in global warming. "Global climate change will be one of the top themes next year in the market" as the Democrats set their legislative agenda and as California moves to establish a program to reduce greenhouse gases, Mr. Evans says.

Like other ETFs, the Clean Energy fund trades like a stock, allowing investors to buy or sell it throughout the day. But it is best to buy and hold this type of fund -- in the past ETFs sometimes have seen a wide spread open up between their bid and asked prices, so if investors buy the ETF and shortly thereafter decide to sell it they could be saddled with a loss. The fund charges an annual expense ratio of 0.60%, lower than what most mutual funds charge.

Another alternative is to stick with giants like Sasol Ltd., a South African oil and natural-gas company that converts natural gas into high-quality, low-sulfur diesel fuel; FPL Group Inc., of Juno Beach, Fla., which is among the companies making a big wager on wind-powered energy; or even General Electric Co., which makes wind turbines. But the alternative-energy businesses of these companies are too small to alone move their stocks, analysts say.