Excerpt from CIO Today, March 18, 2010
http://www.cio-today.com/story.xhtml?story_id=102009F6QX20&page=1

Clean Energy Enjoys a Bright Rebound

Clean energy will be a key focus at the annual Bloomberg New Energy Finance Summit, where clean energy and carbon leaders will examine future investment and policy. Wind and solar energy projects are promising, but need financing, while concerns abound regarding the disappointing outcome of the Copenhagen climate change conference.

The last year-and-a-half have taken the clean energy industry on a roller-coaster ride. Among the minuses, the sector suffered from a shortage of financing for projects such as wind farms and solar parks and there was last December's disappointing outcome of the Copenhagen climate change conference. Among the pluses, prices of renewable energy technologies fell sharply, improving renewable energy's cost-competitiveness, and major countries announced $184 billion worth of "green stimulus" programs.

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The period from 2004 to 2008 saw a surge in global clean energy investment, from $33 billion to $155 billion. By the second half of 2008, the financial crisis stalled the industry's rapid growth. The low point came in the first quarter of 2009, when financial investment in clean energy was more than 50 percent below a peak it had reached just over a year earlier.

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Historically, clean energy stocks have been more volatile than those of other industries but their returns have been higher, making them an attractive investment proposition on a risk-adjusted basis. Their 2009 performance confirmed this, as clean energy stocks recovered more rapidly than the overall market after having fallen more sharply in the second half of 2008.

Publicly quoted clean energy stocks initially held up well during the credit crisis. The WilderHill New Energy Global Innovation Index (NEX) tracks around 80 clean energy companies listed on 25 exchanges worldwide. Indexed to 100 at the start of 2003, the NEX traded as high as 450 at the end of 2007. During the first three quarters of 2008, it continued to outperform the rest of the market. After investment bank Lehman Brothers collapsed, however, the index fell to 178 at the end of 2008, and to 132 by March 2009.

The NEX recovered to close 2009 at just under 250 -- up 39 percent for the year, and up 87 percent from its lowest point in March. The compound annual capital appreciation of the NEX over seven years from the beginning of 2003 to the end of 2009 stands at 13.8 percent -- a respectable return when compared with almost any major asset class.

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