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MUTUAL UNDERSTANDING

'Clean' energy shares run low on gas

Share prices are down, but investors see green

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By [Jonathan Burton](#), MarketWatch
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SAN FRANCISCO (MarketWatch) -- It is not only traditional energy companies that are suffering from the sector's recent downturn. Alternative-energy shares have had the wind knocked out of them as well.

The natural-resources sector is still among the year's better performers, but these stocks and the mutual funds that own them are rapidly losing steam. Still, some analysts view the correction as a speed bump in a profitable road, particularly for so-called clean-energy companies involved in harnessing power from sun, wind and other renewable fuels such as corn-based ethanol.

"Long term, how big a market is this going to be?" said Thomas Van Dyck, a senior investment management consultant with Piper Jaffray & Co.'s Philanthropic & Social Investment Consulting group in San Francisco. "It's going to be massive."

For the moment, however, "massive" more aptly reflects the breadth of the energy sector's erosion. Bellwether Exxon Mobil Corp. ([XOM](#) : , ,) is off 9% in the four weeks through Tuesday. Another oil and gas proxy, exchange-traded fund Energy Select Sector SPDR ([XLE](#) : , ,) , lost 8.9% in the period, and Oil Services HOLDRs ([OIH](#) : , ,) , tumbled 13.6%, according to investment researcher Morningstar Inc.

The binge buying of oil and other commodities shares has seemed to some observers as an ominous repeat of the spectacular rise and fall of technology stocks in the late 1990s. [See full story.](#)

Now, with shares of mainstream oil, gas and coal producers in a slump, the more speculative alternative-energy stocks, with their limited revenues and high or non-existent P/E ratios, are taking a drumming.

PowerShares WilderHill Clean Energy ([PBW](#) : , ,) , an alternative-energy focused ETF, shed 17.3% in the past month. Winslow Green Growth Fund ([WGGFX](#) : , ,) , a small-cap portfolio that has investments in clean-energy stocks, fell 9.4%. A similarly focused midcap offering, New Alternatives Fund ([NALFX](#) : , ,) , lost 12.7% in the period, while the newly launched Guinness Atkinson Alternative Energy Fund ([GAAEX](#) : , ,) , gave back 16.2%.

"Valuations got ahead of themselves," said Matt Patsky, the Winslow fund's co-manager. "It's a volatile category."

For evidence, look at SunTech Power Holdings Co. Ltd. ([STP](#) : , ,) , a leading solar power firm based in China, which hit a 52-week high of \$45.95 in January. The stock closed Tuesday at \$23.15 And shares of Pacific Ethanol Inc. ([PEIX](#) :

, ,) , the ethanol distributor that counts Microsoft Corp. ([MSFT](#) :

, ,) Chairman Bill Gates as a major investor, reached a 52-week high of \$42 in early May, but finished Tuesday at \$20.14.

The widespread rout comes as several ethanol producers plan public stock offerings this summer, largely on the strength of interest from automakers and service-station chains. [See full story.](#)

"Ethanol is probably part of the future," Patsky said, "but I don't understand the valuation. We've been looking long and hard at how to play it. So has everybody else."

Solar energy as an investment also is setting for the moment, Patsky ventured. "These stocks are priced to perfection," he said. "We were very big in solar, as much as 8% of the fund. It is now almost zero."

Patsky's favorites now include: Zoltek Companies Inc. ([ZOLT](#) :

, ,) , a manufacturer of carbon fiber that is used to make blades for wind turbines; Fuel-Tech NV ([FTEK](#) :

, ,) , which is helping utilities reduce emissions from coal, and Maxwell Technologies Inc. ([MXWL](#) :

, ,) , which is developing short-life batteries for hybrid automobiles and wind turbines.

"We like to find companies that are part of the solution to pressing environmental problems," Patsky said.

Powerful alternatives

Clean energy was a flash in the pan once before, in the late 1970s, when investors with fresh memories of another oil crisis pinned hopes on the promise of wind farms and solar power. Then oil prices dropped, and the pipeline for costlier environmental alternatives was capped.

Proponents of alternative power say it's different this time. Their argument hinges on several broad factors: the pressing thirst for energy from rapidly industrializing China and India; existing demand from developed economies; the finite nature of fossil fuels; global warming, and, not least, the uncertain geopolitics of oil. In such a world, they say, it pays -- both economically and politically -- to find other power sources.

"All these factors point to clean energy becoming more important," said Robert Wilder, founder and chief executive of WilderShares LLC, an Encinitas, Calif.-based firm that manages the WilderHill Clean Energy Index ([ECO](#) :

, ,) , on which the PowerShares ETF is based. Wilder also co-sponsors the recently introduced WilderHill New Energy Global Innovation Index ([NEX](#) :

, ,) , an international-stock benchmark on which PowerShares hopes to base an ETF.

Said Wilder: "Oil is not infinite; at some point something is going to have to take its place."

That time has arrived, according to Thomas Van Dyck, who heads Piper Jaffray & Co.'s socially responsible investment wealth management group in San Francisco. As evidence, he points to green-based initiatives among companies such as General Electric Co. ([GE](#) :

, ,) and BP Plc ([BP](#) :

, ,) , with biofuels, and Wal-Mart Stores Inc. ([WMT](#) :

, ,) , with its reduction in packaging materials and introduction of organic foods. These and other firms see environmental efforts as delivering benefits on multiple levels, Van Dyck added.

"There's a huge bottom line associated with the environment," he said. "It's good for the environment, for business, and for investors, and it's great for the brand. A management team that orients itself to environmental efficiency is going to be a better long-term performer."

A company's environmental commitment, or lack of one, is the most critical question that Winslow's Patsky asks of executives he interviews.

"If the answer is 'I've never thought of that,' we don't invest in the company," Patsky said. "They should have an appreciation of their environmental impact. If they haven't thought about it, they haven't thought about a lot of things."

Four funds for the future

Fund	Ticker	Expense ratio	1-month return	1-year return	3-year annualized return
PowerShares WilderHill Clean Energy	PBW	0.70%	- 17.3%	34.8%	N/A
Winslow Green Growth Fund	WGGFX	1.45%	- 9.0	24.2	19.8
New Alternatives Fund (4.75% Front-end load)	NALFX	1.28%	-12.7	17.5	16.3
Guinness Atkinson Alternative Energy Fund	GAAEX	1.98%*	-16.2	N/A	N/A

Source: Morningstar Inc. (Data through 6/12/06)

*Guinness Atkinson Asset Management Inc. ■

Jonathan Burton is MarketWatch's investments editor, based in San Francisco.

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