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MUTUAL UNDERSTANDING

'Clean' energy shares run low on gas

Share prices are down, but investors see green

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 HOLDERS ([OIH](#)), tumbled 13.6%, according to investment researcher Morningstar Inc.

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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

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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.

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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)