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Some Alt-Energy Stocks Could Lose Steam

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A DOCUMENTARY ABOUT GLOBAL WARMING and ways to reduce it won an Oscar last Sunday night. But not every alternative-energy stock deserves a prize.

Despite political support for cleaner-burning domestic sources of energy, the WilderHill Clean Energy Index, a leading measure of stocks tied to increased clean energy and conservation, was only up about 5% in 2006.

The index, which has its own exchange-traded fund, was up 25% at one point last year. But as oil prices fell in the second half of the year, so did shares in alternative-energy plays.

So as investors look for alternative-energy companies with staying power, they should be wary of smaller companies with high valuations or a murky profit outlook even after recent market corrections.

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"Too often alternative-energy stocks become story stocks [where] the great story can exceed a level that is supported by fundamentals,"

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The expense and difficulty in finding new crude-oil supplies, combined with government incentives globally to curb harmful emissions, should sustain the best alternative-energy companies for years to come. And investors could do well with a basket of alternative-energy stocks or an ETF that identifies clean-energy technologies.

But those trying to play global warming solutions in equities would do well to stick with companies that have profits and look poised for a Hollywood ending.