Investment Managers Grapple Over a Spike in the Alternative Energy Sector

Industry observers are conflicted over whether these investments are a good bet or risky choice.

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September 19, 2005- With the sharp increase in oil prices, industry observers have expressed conflicting views over whether the alternative energy sector might harbor some prudent and rather profitable choices for investment managers and their clients.

At a press conference in midtown Manhattan, Richard Driehaus, chairman and CIO of Chicago-based Driehaus Capital Management, said he's bullish on securities linked to alternative energy and environmentally conscious and renewable energy sources, such as wind, solar and hydrogen fuel cells. He believes that the way things stand presently, these could be the hot picks for the near future. "Supply and demand make energy a long-term play," he said.

But not everyone in the industry has so much faith. "It's dangerous to invest in funds that have recently spiked," said Dan Culloton, a Morningstar analyst. "They could do the same thing to you on the way down," Culloton said of alternative energy for a report in *The Wall Street Journal.*

On the other hand, Bob Wilder of WilderShares told *The Journal,* "It is not just [Hurricane] Katrina. The lack of attention to alternative energy is coming to a roost, and investors wonder why the U.S. isn't diversifying with solar and wind energy." The WilderHill Clean Energy Portfolio, an exchange-traded fund that was introduced in March, has witnessed a whopping 58% increase in assets since Katrina, but the fund's assets had surged by 35% in the three months right before the devastating hurricane.

Confusion with the broader energy sector compelled Vanguard Group to take the unusual step of issuing a warning to investors at its Web site. Although the Vanguard Energy Fund has seen its share price rise more than 50% in the past year, as of July 31, executives at the Valley Forge, Pa.-based firm expressed caution.

"Unfortunately, many investors fall into the behavioral trap of buying what has performed well in the past," said Joseph Brennan, a principal in Vanguard's Portfolio Review Group. "This sets many investors up for disappointment, as strong performance is usually followed by periods of underperformance."

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