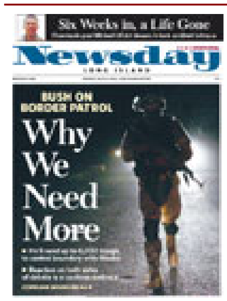

Business

Hot stocks now may burn later

Experts caution that the lure of energy stocks has a down side and investors should use common sense

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The surge in oil prices might have you paying more at the pump, but can it make your portfolio prosper?

That depends on who you talk to. Some experts are confident there's still money to be made investing in the energy industry. Others say you've already missed the boat.

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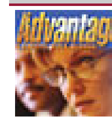

Columnists

One thing that's for sure, they say, is investors shouldn't make major changes to their asset allocations to plunge into a hot sector. Don't forget about the technology bubble of the late 1990s, when tech and Internet stocks soared in value only to come crashing back to Earth during the bear market. So experts say if you want to invest in energy stocks or funds, you should only put a small amount of money in them.

"There's always a tendency to chase whatever is hot," said Don Cassidy, senior research analyst at Lipper, an investment information service. "But be careful not to go overboard in any one sector."

Certainly energy sector returns have been impressive lately. The natural resources sector, which is dominated by energy funds, has been up 20 percent year-to-date and 55.3 percent in the past 12 months, according to Morningstar, a mutual fund tracker. That performance has piqued the interest of many investors.

Gary Goldman, a psychologist from Dix Hills, started investing in energy companies about 18 months ago and is thinking of putting more money into the sector.

"I saw my fuel prices to heat my house going up, and that led me to believe I need to make some of the money back," said Goldman, 48, who has a private practice in Great Neck. "I looked at companies that are benefiting from my and my neighbors heating our houses."

Not limiting himself to oil companies, Goldman also invests in alternative energy and companies that support the Exxons and Chevrons of the world. He likes alternative energy companies, like Peabody Energy, a coal mining company whose share price is up 67.4 percent in 2006 and that had a 213.5 percent total return on its stock in the past year.

Miller Place resident Mike Muller also is hot for the energy sector, though he's sticking to alternative energy since he thinks oil-related stocks and funds are at their peak. An active trader, he recently bought shares in PowerShares WilderHill Clean Energy, an exchange-traded fund that invests in companies promoting greener and renewable energy sources. It's up more than 43 percent year-to-date.

"This is a nice way to play the rise in energy prices," said Muller, 49, a Verizon maintenance technician. "I've already missed the profit potential in the oil stocks."

That's not necessarily so, says Ed Maran, co-portfolio manager of Thornburg Value Fund. He said many big oil companies are still good values. For instance, Exxon is up 10.8 percent year-to-date and Chevron 8.1 percent. The stock market has not factored in the oil price spike into these companies' shares, Maran said.

"This market skepticism is giving investors opportunities without their having to worry they've already missed the boat," Maran said.

Most investors, however, don't need to put money in sector funds or stocks to benefit from the spike in oil prices, said Sonya Morris, a mutual fund analyst at Morningstar. Many diversified mutual funds have a stake in energy. For instance, a Standard & Poor's index fund has about 9 percent of its money invested in the energy sector, she said.

"Funds that invest in energy stocks are some of the most volatile funds out there," she said. "Investors should make sure they can handle those ups and downs. Investors can get distracted by the double-digit returns, but they may not realize the underlying risks."

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