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Institutional Investor Americas (as well as Institutional Investor International)

Blowin' in the wind: their multiples are absurd and their liquidity nil. But alternative energy stocks are soaring--and high oil prices could prolong the rally.

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Tracking 86 stocks listed in 18 markets around the globe, the **WilderHill** new energy global innovation index, or NEX--total market capitalization: \$276 billion--offers a comprehensive overview of the soaring value of alternative energy shares. Leading industries in the index: solar, wind and biomass.

In the 12 months through June 15, the NEX was up 28.7 percent, more than doubling the MSCI world index's 11.3 percent gain. Over three years the NEX index returned an annualized 27.2 percent, topping the global market by nearly 13 percentage points annually. Over the past five years, alternative energy shares returned 8.9 percent annually on average, compared with 4.9 percent for the MSCI world index. (Alternative energy shares got hammered in 2001 and '02, as did traditional energy stocks.)

Shares in alternative energy companies don't come cheap, even by growth-stock standards. Of the index's 86 stocks, only 53 are reporting earnings, and their average trailing price-earnings ratio through the end of May was 57.6, versus a 16.7 multiple for the MSCI world index. The shares are also richly valued on a price-to-book basis. With 83 reporting positive book values, their average price-book is 4.61; for the MSCI world index, it is 2.52.

And many are lightly traded stocks. For some, average daily trading volume runs about 300,000 shares. A spike in trading caused by company news or an energy-related event could increase volatility, causing spreads to significantly widen. ...

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For a U.S.-based alternative energy play, **PowerShares Wilderhill Clean Energy ETF** offers exposure to 40 domestically listed stocks, including several American depository receipts. Its top three sectors--power delivery and conservation, renewable energy harvesting and energy conversion--make up more than 70 percent of the fund's assets.

Robert Wilder, whose Ph.D. focused on environmental policy, is the **CEO of Wilderhill** and manager of the fund. Instead of using traditional financial metrics, **Wilder** picks companies based on technological innovation, patents pending and contribution to energy efficiency.

Since its March 2005 IPO at \$15.50, the ETF has risen 23 percent, to \$19.10, as of June 15. More dramatically, the asset base has soared from \$10 million to more than \$737 million. Argues **Wilder**: "When investors see what's happening to the price of traditional fuels; are aware of the environmental impacts of a heavily hydrocarbon-dependent economy; and hear the president emphasize the need for supporting alternative energy sources, the case for alternative energy becomes more compelling and a lot easier to understand."