

Excerpt from Minyanville, February 25, 2011

<http://www.minyanville.com/businessmarkets/articles/oil-oil-market-oil-spike-alternative/2/25/2011/id/33032?camp=syndication&medium=portals&from=yahoo>

Oil Spike? Alternative Energy Says Nope

Feeling worried about the Middle East? Starting to think an oil supply disruption is right around the corner? If you've been watching the news and watching the rolling revolutions that are occurring in the Middle East, those fears may feel justified. Certainly the oil market has gotten quite scared, with oil as proxied by the **United States Oil ETF (USO)** up over 7% since Friday of last week. Energy **stocks** have handily outperformed the **S&P 500** this week, beating the broader market by over 200 basis points.

One might think that fear over continued spikes in oil would translate into stronger performance for alternative energy stocks. After all, while alternative energy sources admittedly cost more per power generated than that which comes from oil, the more expensive oil becomes, the more attractive alternative energy sources become from a price and **investment** standpoint. And yet...



I ran a comparative chart on the **Energy Sector ETF (XLE)**, the S&P 500, and the **Alternative Energy ETF (PBW)**. Surprise, surprise -- alternative energy not only underperformed energy stocks on average, but also significantly underperformed the broader market! So why the diverging opinion on **oil prices** going forward? Investors in the energy sector have been betting that oil would continue its price run on further supply disruption risks in the Middle East, while **investors** in alternative energy stocks remain unconvinced. One would think that alternative energy stocks would be a direct beneficiary of the recent oil spike, but performance has proved quite the opposite.

The tug-of-war in the opinion of future oil prices continues. Futures prices on oil going two to three years out have not budged that much, so could it very well be that spot oil prices at these levels are unjustified? Saudia Arabia has already taken steps to increase its own oil production to counter disruptions in Libya. All I know is that prices go up until they don't.