Excerpt from San Francisco Chronicle, February 20, 2008

http://www.scrippsnews.com/node/30864

Hoping to profit by going green

By KATHLEEN PENDER, San Francisco Chronicle personal finance

Interest in green investing has blossomed, thanks largely to Al Gore's 2006 documentary, "An Inconvenient Truth," and soaring oil prices, which have fueled a sharp rise in alternative-energy stocks.

Many green funds are full of solar, wind and water energy companies. But you'll also find companies such as Google, Apple, IBM and Johnson & Johnson.

Morningstar analyst Michael Herbst says funds take two basic approaches to green investing.

The first group takes what I'll call the direct approach. They invest in companies that produce goods or services aimed at solving environmental problems. They typically invest in alternative energy, conservation, recycling, organic foods and pollution control. Some invest in nuclear power, some won't.

The second is a "best-in-breed approach, where managers are looking at various sectors or industries and trying to find the greenest retail store or auto manufacturer," Herbst says. Such a fund might own an oil company if it is deemed the cleanest oil firm.

….

If its top holdings are companies such as First Solar, Whole Foods or Vestas Wind, it's probably taking the direct approach. New Alternatives, PowerShares Wilder Hill Clean Energy Portfolio, Guinness Atkinson Energy and Winslow Green Solutions are in this camp.

If the fund owns companies such as Microsoft and Procter & Gamble, it's probably taking the best-in-breed approach.

….

Which is the better shade of green depends on your environmental philosophy, but investors should be mindful of the risks inherent in the two approaches.

The best-in-breed funds tend to be more diversified across economic sectors and generally invest in bigger companies. They might be less volatile and more appropriate as a core holding.

Funds taking the direct approach are less diversified and often invest in smaller companies, which makes them riskier and more volatile over the short run. Many of these companies are also subject to shifting political and regulatory landscapes, which add another layer of risk. Funds that focus exclusively on alternative energy are even more narrowly focused and influenced by oil prices.

Many of these funds did quite well in 2006 and 2007 when energy prices were soaring and investors were willing to shoulder a lot of risk, but have struggled in 2008.

"They are sector funds in essence," says Morningstar analyst Bill Rocco. "Any kind of green energy fund is narrow and should be used in small doses."

….

In the past few years, owning foreign stocks generally helped a fund's returns. Overseas markets have mostly outperformed the U.S. market and the falling dollar produced currency gains when a fund repatriated its foreign profits. If the dollar started climbing against foreign currencies, funds with foreign holdings could realize currency losses that would detract from their returns.

Investors also should decide if they want a traditional fund or an exchange-traded fund. Most of the traditional green funds are actively managed, which means they have people researching and trading stocks based on their green credentials and profit potential. Traditional funds can be purchased directly from the fund company or through a broker and are priced once a day when the market closes.

….