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Alternative Energy Investments

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Article Body:
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The oil market is not the only one looking up. Alternative fuel stocks are also attracting many investors. Because oil and gas are expensive, Americans are looking for cheaper nonfossil fuel and that demand is boosting the alternative fuel stocks as well. This is especially good for anyone who cares for the environment -- the greens. If you consider yourself an environmentalist or a preservationist, this is perfect for you, for you are now able to support efforts to preserve the environment while at the same time profiting from those efforts. It's a win-win situation. Consider this: Pacific Ethanol Inc., a small ethanol-producing company started in 2003 by Bill Jones, the former secretary of state for the state of California, has trebled its stock price on NASDAQ to about $30 a share within a year of going public in March of 2005. Like many other similar renewable fuel start-ups, millions of dollars in private equity money are being thrown at Pacific Ethanol like the world is coming to an end. Billionaire Bill Gates, the chairman of Microsoft, is one of those investing in renewable fuel stocks. Gates' investment company, Cascade Investment, has agreed to pump $84 million in Pacific Ethanol.

The U.S. government has recognized alternative fuel as the fuel for the future and has included a number of tax incentives in the Energy Policy Act of 2005, the energy law signed in the summer of 2005, to spur growth in the alternative fuel sector. If you haven't already, you should give alternative stocks a try as it will make you feel morally stronger. It's been nearly three decades since efforts to promote alternative fuel floundered after the 1973 oil crisis, but it's making a comeback. Still, alternative fuel remains a small industry, with small cap companies dominating. Since 2005, 15 of the 36 companies in the WilderHill Clean Energy index have made huge profits. That includes hydroelectric power and wind energy, solar energy, and fuel cells.

Some of the most successful companies in the renewable fuel sector are huge conglomerates, like General Electric and Germany's Siemens, and also big oil companies, like BP, that are hedging their bets. Investing in these companies offers a chance to own a clean energy stock. Here's some information about GE worth knowing: It made close to $2 billion in sales from production of wind-powered turbines in 2005, treble what it made from that business unit in 2002. However, that's only 1 percent of GE's revenues.

There's a lot of hope that alternative fuel technologies developed by some of the smaller companies will become commercially viable and help support the sector. As a result, stocks for these companies are expected to soar. WilderHill Clean Energy Index gained 26 percent in the past 12 months alone, compared with 50 percent for oil. That's not bad, considering this is not an established sector in the United States.

Moreover, since continued oil supply is uncertain, a lot more consumers are going to turn to coal, which is abundantly available in the United States, China, and India. Coal used to be frowned upon because of its dirt, but technology has improved enough to make it just as clean as other fuels. Shrewd investors could buy shares in U.S. coal producers, including the two biggest, Peabody Energy Corp. and Arch Coal Inc., both based in St. Louis, Missouri. Coal companies have profited from the current oil boom.

Investing in coal doesn't mean that Big Oil isn't safe anymore. It only means that you are on much firmer ground when you have a diversified portfolio. If you look at both types of stocks, the difference isn't large. Exxon Mobil, for instance, returned 36 percent to its shareholders in market appreciation and dividends in 2005 and BP returned 21 percent. Peabody Energy stockholders, meanwhile, did far better in the same time period. They more than doubled their money, and Peabody shares have risen more than three and a half times since the company's initial public offering in 2001. Arch Coal stock returned 65 percent in 2005 as well.

Coal producers have benefited from increased demand from power plants and steelmakers in the United States, China, and India. Massey Energy Co. of Richmond, Virginia, for instance, said its average selling price for coal used in steel-making jumped 38 percent in 2005. Consol Energy, Inc. of Pittsburgh, the third largest U.S. producer, plans a $500 million mine expansion to keep up with orders.

Soaring prices for natural gas have given coal demand another lift. Many electric power plants have switched from gas to coal, which costs about half as much. In the spring of 2006, Duke Energy Corp. closed on a deal purchasing Cinergy Corp. for about $9 billion, in large part because of Cinergy's coal-fired plants.

Back to oil, we've also seen that the market has been good to minnows as well. In fact, some smaller oil companies also have outperformed the giants. For instance, Apache Corp. of Houston produced a 12-month total return of 51 percent for its stockholders, helped by increased first-quarter selling prices of 51 percent for crude oil and 11 percent for natural gas. Apache recently bought property from Shell, BP, and Exxon Mobil and its profit rose tremendously in 2005. Oil transport companies have not been left behind. Overseas Shipholding Group of New York made an acquisition in 2005 that made it the world's second-largest oil tanker company. The bigger fleet, combined with higher tanker rates, boosted the company's 2005 earnings by about 40 percent. The world's biggest owner of oil tankers, Teekay Shipping Corp. of Vancouver, Canada, capitalized on high energy prices in yet another way. In the fall of 2005, Teekay raised $132 million through the public sale of a 20 percent interest in Teekay LNG Partners LP, whose ships carry liquefied natural gas and crude oil.

Is it too late to buy energy stocks, large or small? BlackRock, Inc., which manages $391 billion, doesn't seem to think so. It reported to the SEC in late summer of 2005 that after $870 million in purchases, it owned stakes in Peabody, Arch, Consol, and Massey ranging from 3.3 to 8.8 percent. The money manager also has a 4.7 percent stake in Newfield Exploration Co., an oil-and-gas company that returned 49 percent to its shareholders in 2005.

The bottom line is this: The world needs a lot of energy, but supply is getting tighter; an "überspike" in oil prices is in the making and the potential rewards for the savvy energy investor are huge.



George Orwel is an Oil Analyst and Senior Writer for both the Oil Daily and Petroleum Intelligence Weekly. Previously, he covered the oil market for six years as a staff reporter for Dow Jones Newswires. Orwel has appeared on key media outlets, including CNN, BBC, and NPR, and contributed articles to the Los Angeles Times and the Christian Science Monitor, as well as other publications. He lives in Brooklyn, New York.