

HOW TO . . .

Invest in Alternative Energy

Alternative energy. Global warming. From newspapers to NPR, you can't get away from these issues. So what's the big deal, and how does it affect you as an individual, businessperson or investor?

A recent survey conducted by Opinion Research Corporation (ORC) for the Calvert Group found that more than three out of four U.S. investors are concerned "about global warming and what climate change could mean in terms of major changes" during their lifetime and those of their children and grandchildren. The recently released Intergovernmental Panel on Climate Change (IPCC) report states that human activity is significantly contributing to global warming, specifically our continued use of fossil fuels for energy.

The ORC survey added that 85 percent of respondents agreed that alternative energy investments, such as wind and solar, represent an opportunity to both support the environment and generate profit at the same time. The problem lies in the follow-through: only one in five have discussed alternative energy investments with their financial advisor. To make matters worse, most advisors aren't prepared to answer those questions.

Energy use is not slowing down. A BP report stated that worldwide energy consumption grew by 4.3% in 2004, and the International Energy Agency predicts a worldwide increase in energy demand of 50 percent by 2030. Much of this growth is expected to be in developing countries.

So, with the knowledge that we need to reduce our fossil fuel use and at the same time increase our energy output 50 percent over the next 23 years, where will that energy come from? The answer has to be alternative energy sources.

A report by Guinness Atkinson Asset Management states "Alternative energy will not provide 100 percent of our needs for heating, electricity and transport fuel in the foreseeable future. But the enormous expansion required



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just to meet a meaningful fraction of that demand suggests that this industry is just at the bottom of a very large growth curve." Now, as an investor, you could make some investments in industries such as solar power, geothermal or wind. These are all known technologies with little or no fossil fuel footprints. But as a long-term investor, you must take risk into account. Most of the companies in this sector are small and very volatile. So, take care not to make bets in this area, but to make smart, well thought out investment decisions.

The first recommendation I would make is to buy the sector and not individual stocks. There are now several securities available which own a basket of companies involved in the alternative energy sector. By using this type of investment, you are not making bets on a particular technology (i.e. Beta vs. VHS) and you are spreading your risk. The basket should include fuel cells, wind, biomass, solar and energy efficiency technology. Talk with your advisor or seek out an expert in environmentally responsible investing to help you determine which security is best for you.

My second recommendation is to be prudent. Don't put too much of your portfolio in this sector. Remember that it is an emerging market, and with emerging markets come higher risk. Every investor is different, so be sure to consult an expert on what percentage of your portfolio should be dedicated to alternative energy investments.

My final recommendation focuses on a

different type of investment: your consumer purchases. Buying a product can be just as much of an investment as buying a security. When you make buying decisions, ask yourself how does this purchase affect my global warming footprint, and my future cash flow.

One of the technologies I commented on above was energy efficiency. For example, buying a compact fluorescent light (CFL) instead of a traditional incandescent light bulb. CFLs use about 75 percent less energy and last longer. So, you're not burning as much fossil fuels and you are saving money. It's a win-win.

Other purchasing decisions include Energy Star appliances, hybrid cars, choosing green power from your electric provider, or installing a solar electric system. Of course, remembering to turn off the lights when you leave a room, walking instead of driving and setting your thermostat at a reasonable temperature make a tremendous difference as well.

The demand we create by purchasing more energy efficient products, the more available they will become. And with more demand comes greater manufacturing capacity and lower prices, followed by the potential for higher stock prices in the alternative energy sector.

It's time to put our money where our mouth is. You have the potential to not only benefit yourself, but the planet and humankind as well. I took delivery of my new Prius hybrid this week. What will you do?

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