

Traders Notes for April 22nd 2008

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Alternative Energy: Burned Once.... Shame on You, Burned Twice... Shame on Me

Today is Earth Day and the buzz in the financial sector is focused around renewable energy. With oil at \$117 a barrel many investors are beginning to dabble in companies that produce solar panels, windmills or other products that offer an alternative to carbon-based fuel. There are many companies out there that operate in these industries and if you are interested, we found an extremely comprehensive list of these companies broken down by category (wind, solar, battery, waste) at:

http://www.renewableenergystocks.com/Companies/RenewableEnergy/Stock_List.asp.

While the alternative energy industry is likely to grow in the coming years and everything is likely to be 'greener' a decade from now, **we strongly advise investors against buying companies in this arena.** We believe green energy companies are a fad and in aggregate will likely to be a lousy investment. There are 4 reasons for our bearishness :

1. **Investor patience has historically been too short:** The alternative energy arena is still in its infancy and significant revenues and earnings may not occur for several years. While most investors in the space claim to be buying for the 'long-run' , we expect their patience to be tested when the group encounters the inevitable bumps in the road.
2. **Valuations are expensive:** We produced a composite of 10 of the largest solar and wind companies in the market today. In aggregate the group is trading at 48x 2008 estimated earnings per share and analysts anticipate those earnings to grow by 113% in 2009.
3. **Competition is likely to get more fierce:** Take one look at the link above and you will be amazed by the number of companies operating in this industry. The list took 27 pages to print and is growing every day. A growing industry attracts new upstarts and encourages well-established companies with big balance sheets to enter the industry. Often the leading companies in an immature industry do not have what it takes to remain leaders as the industry grows exponentially. Financial strength, operational expertise and management prowess often trump 'cool technology' as an industry matures
4. **History not kind to 'green' companies:** Charts 2 & 3 show the performance of companies still operating in two recently 'faddy' alternative energy industries: Ethanol and Fuel Cells. Both industries proved to be a quick way to separate investors from their money. These charts would look even worse had we included many of the companies no longer in existence.

Chart 1



Solar and Wind companies are all the 'rage': One dollar invested in 2003 would have risen over 400% more than the equally-weighted S&P 500. **In our opinion, significant downside exists for these companies**

StockVal Composite of Ten Large Solar/Wind Companies:

First Solar (FSLR-O-\$291.85), Vesta Wind (VWSYF-O-\$109.85), Suntech (STP-N-\$48.08), MEMC (WFR -O-\$75.95), SunPower (SPWR-O-\$93.50), Solarfun (SOLF-O-\$14.8), JA Solar (JASO-O-\$25.58), LDK Solar (LDK-N-\$23.57), Energy Conversion (ENER-O-\$33.58), Evergreen Solar (ESLR-O-\$9.63)

Chart 2

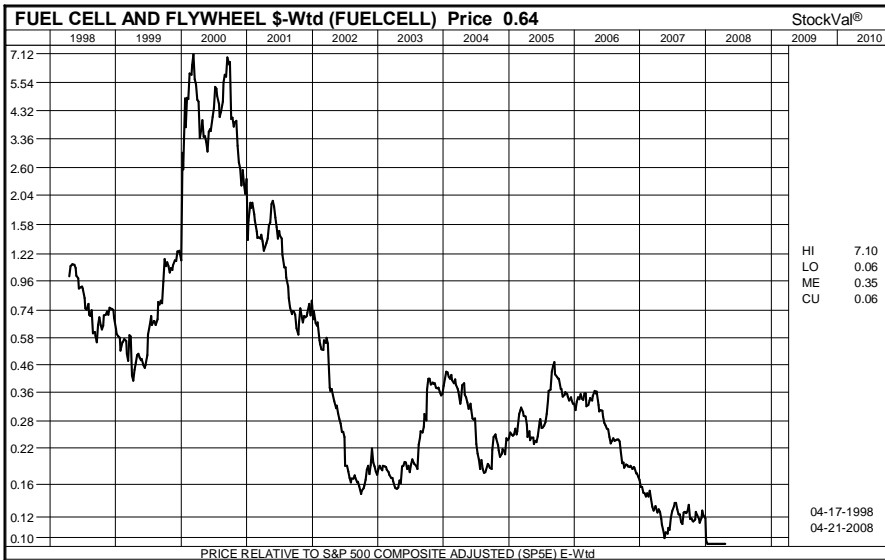


Ethanol and Bio-Fuel Companies quadrupled the returns of the equally wtd. S&P 500 from 2003 – 2006, then gave nearly everything back over the next 16 months.

Chart Courtesy StockVal

Ethanol Companies: Biofuels (BIOF-O-\$4.11), Pacific Ethanol (PEIX-O-\$3.62), Rentech (RTK-N-\$1.30), Verasun (VSE-O-\$6.56), Verenium (VRNM-O-\$2.92)

Chart 3



Fuel Cell companies led to gains 7x the S&P from 1998 to 2000. However, the original \$1 investment would be worth less than \$0.10 if held to today.

Chart Courtesy StockVal

Fuel-Cell/Distributed Power: Ballard Power (BLDP-O-\$4.16), Dist. Energy (DESD-O-\$0.51), Fuel Cell (FCEL-O-\$8.21), Hydrogenics (HYGS-O-\$0.54), Millenium Cell (MCELL-O-\$0.09), Plug Power (PLUG-O-\$3.38), Capstone (CPST-O-\$3.01), Active Power (ACPW-O-\$1.43), Beacon Power (BCON-O-\$1.05)

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