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Making money in renewable energy

Experts say to stay away from solar, which saw a huge run up in 2007, and instead focus on wind, energy efficiency specialists or the battered biofuels sector.

By [Steve Hargreaves](#), CNNMoney.com staff writer

NEW YORK (CNNMoney.com) -- Despite the astronomical jump in clean-energy stocks in 2007, investors say 2008 will also be a good year for most stocks in emerging energy technology.

Driven by record oil prices that lifted the broader energy sector in general - and perhaps investor enthusiasm stoked by global warming fears - 2007 was a fantastic year to own renewable energy stocks.

The WilderHill clean energy index - an index of 48 large U.S. stocks in the renewable energy sector - rose over 58 percent for the year. That compared to an 8 percent gain in 2006 and an anemic 5 percent rise in 2005.

Solar was the big winner in 2007. Most solar stocks in the index rose over 100 percent. First Solar, a maker of thin-film solar panels that is half-owned by the estate of Wal-Mart founder Jim Walton, surged a staggering 795 percent last year alone. Its stock hit nearly \$300 a share.

But after a big runup in solar stocks, experts suggest looking at wind and energy efficiency specialists for market-leading performance in 2008, and perhaps a rebound for biofuels, which took a beating last year.

Here's what the experts say, sector by sector:

Solar

The leader in 2007 is already seeing a pullback. Solar stocks in the WilderHill Index - which include SunPower ([SPWR](#)), Evergreen Solar ([ESLR](#)), Suntech ([STP](#)), and First Solar ([FSLR](#)) - have fallen an average of around 10 percent

since the start of the year.

The decline seems to be a simple case of investors bailing out of what they see as an overvalued sector.

"When I see valuations that are out of control, it just kinda scares me," said Paul Ferreri, a renewable energy portfolio manager at McClurg Capital, a San Rafael, Calif.-based capital management company.

That said, almost all renewable energy investors still think the sector is a good bet for the long term.

Wind

Experts say the wind sector, which boasts the technology of choice for utilities looking to buy green power, is now undervalued compared to solar.

"Wind is a steady grower, and it will continue to be supported by legislation and production targets," said Jens Peers, head of Eco Funds at Dublin-based KBC Asset Management.

The problem is, there are very few U.S. wind companies to invest in. Most big makers of wind turbines - like Spain's Gamesa, India's Sulzon, or Denmark's Vestas - do not have U.S. stock listings.

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Another way for U.S. investors to play wind is to get in on the parts companies. Zoltek ([ZOLTEK](#)), which makes carbon fiber that's used in turbine blades, is an investor favorite. Its stock rose over 100 percent last year, and a mind-blowing 1,849 percent over the last 5 years. But with earnings growth of over 100 percent over the last 12 months, the runup may be justified - although the company has yet to turn a profit.

And American Superconductor ([AMSC](#)), among its many products, makes devices used in transferring energy from wind turbines. That company's stock rose 178 percent last year.

Biofuels

This sector got killed in 2007 as corn prices rose, ethanol prices fell, and the media churned out stories highlighting corn-based ethanol's inefficiency and the problems with using food-based crops for fuel.

Verasun's ([VSE](#)) stock lost 26 percent and Pacific Ethanol ([PEIX](#)) sank over 50 percent.

But that may mean it's a good time to buy.

"[These stocks] are extremely cheap, and legislation could push [them] back up," said Peers.

For corn-based biofuels stocks, experts said to be careful of the smaller companies and stick to names like Verasun or Pacific Ethanol. Ferreri likes the diversity offered by Archer Daniels Midland ([ADM](#), [Fortune 500](#)), the agriculture giant with a big stake in the sector.

Experts also like the biofuel companies working outside the corn area.

Cosan ([CZZ](#)) is a big Brazilian company specializing in sugar-based ethanol, which is more efficient than corn.

Efficiency

Companies that specialize in helping other outfits boost their energy efficiency haven't gotten nearly as much press as their sexier cousins in wind and solar, but experts say cutting demand is just as important as generating new, clean power when it comes to meeting future energy needs.

Companies like Orion ([OESX](#)), which manages power demand, Itron ([ITRI](#)), which makes so-called "smart" electric meters, or Cree ([CREE](#)), which makes super-efficient light emitting diodes, are all on investors' radar screens.

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Satlow also said good plays in renewable energy could include companies that make equipment used to make solar panels, like Applied Materials ([AMAT](#), [Fortune 500](#)), or Veeco ([VECO](#)), which makes precision equipment used to manufacture microelectronic products.

With all the different types of renewable technologies out there, he likened the race to find the dominant few to a war.

"We don't really know who's going to be the winner, so we prefer to go with the arms dealer," he said.