THE PROGRESSIVE INVESTOR

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Welcome to *Progressive Investor*!

Welcome back everyone - I feel refreshed after having taken some time off as I hope you do. This issue has articles on some exciting developments bound to take high impact investing to new heights.

A new fund for accredited investors offers the promise of doubling the acreage of forests we're able to protect each year. The first clean energy index offers you an opportunity to invest in the sector as a whole.

The alternative energy group looks poised for upward movement over the next quarter and we're here to keep you updated on that.

We also interviewed Marty Murphy, chair of NREL's growth forum, the first forum to bring investors together with businesses seeking capital. The Forum is in October, as is the Cleantech Venture Forum.

I'll be at the SRI in the Rockies Conference in early October and look forward to meeting many of you!

Please remember, you can easily keep up with the general and investor-oriented **daily news** in the field of sustainable business, by visiting the www.sustainablebusiness.com home page every day.

Enjoy and Learn!

News Highlights

Community investment mutual fund opens to small investors

Social investors looking for a way to derive income while investing in community development now have access to the largest fixed-income, community development mutual fund in the U.S. Until now, the Community Reinvestment Act Qualified Investment Fund (CRAIX) has been open only to institutional investors. The no load mutual fund is now open to individual investors through Schwab's OneSource® service with a minimum investment of $2,500.

250 of the largest financial services organizations in the nation are

Contributing Partners

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Lowell, Blake & Associates

Materials Productivity, Inc.

Progressive Investment Management Mutual Fund: Portfolio 21

Trillium Asset Management

Winslow Management Co. Winslow Green Growth Fund

investors in the Fund, which has directed nearly $900 million toward community development activities including affordable housing, affordable healthcare, job training, and neighborhood revitalization.

The Fund has been recognized as a Lipper Leader for Total Return and Consistent Return. In the five years since its inception, it has grown to $500 million in assets, generating annual returns of 6.27%.

"Until now, community investing has been viewed as a philanthropic endeavor where investors have to accept below market returns. Now they have options to enhance communities without sacrificing performance. We hope this will open up community investing to a whole new class of investors," says Barbara VanScoy, managing director of CRAFund Advisors, registered investment advisor to the Fund.

The Fund's presence on Schwab's OneSource platform put hundreds of millions of new dollars in community development.

CRA Qualified Investment Fund: www.crafund.com

How do the big companies rate on their actions re. Climate Change?

Would you like a quick snapshot on the large cap companies your mutual funds invest in? A number of social/ environmental research firms around the world provide that service now, but for more than several thousand dollars a year. KLD Research & Analytics, the first socially responsible investment research firm, now gives you a small window into their company research through a partnership with nonprofit Results for America.

When you visit the Results for American website, you can research the top companies held by the 24 largest U.S. mutual funds and find out what their risks and opportunities are with respect to climate change. The information is superficial, but it's a quick way to get a snapshot of the companies you're investing in when you are a shareholder in these mutual funds.

"I'd like to see shareholders lobby their mutual funds - that's how to effect change at the corporations," Peter Kinder, founding president of KLD told SocialFunds.com. "When you think of this site being launched ten days after mutual funds first reported their proxy votes, the importance of letting people know what they own becomes clear."

Of the Vanguard 500 Index fund's top 25 holdings, for example, 13 are companies where shareowner value could be jeopardized by climate risks or enhanced by climate-related action. Some of the riskier companies are ChevronTexaco and ExxonMobil, while companies with opportunites include Bank of America, Johnson & Johnson, and UPS.

NY Times reports on alternative energy investments

A recent NY Times News Service article, "Alternative Energy Industry Finally Ready to Grow Up" (August 22), questions whether the alternative energy stocks are a wise investment. Although the cost difference between conventional forms of energy and alternative forms is narrowing, skeptics like Wenhua Zhang, an analyst at T. Rowe Price, still argue that renewables are a long way off from commercial viability. In the meantime, they depend on continued financing, and for that reason, he recommends avoiding them. "Energy is not like other technologies, where you can get started for US$15 million," Zhang said. "You need half a billion."

Although some portfolio managers and small investors may be holding off investment in the sector, the article points to the multinationals that have increasingly big stakes, like the recent Ford/ DaimlerChrysler purchase of Ballard Power Systems vehicle business.

"General Electric is likely to become the largest alternative energy company in the world in a short time," said James Cameron, a founding partner of Climate Change Capital, a venture capital firm in London that specializes in alternative energy. The investments by GE and other multinational companies are signs the industry is about to grow up," he said. And, he added, that with pension plans starting to invest in socially acceptable ways more money will enter the sector.

Indeed, in a July Reuters article, the head of GE Energy's solar business, Ali Iz, said the company hopes its solar business will top $1 billion a year by 2010. In 2002, GE bought Enron's bankrupt turbine business for under $200 million and now posts sales of $1.3 billion. GE bought Astropower's business for a mere $19 million. Iz says demand is increasing significantly in the $7 billion solar industry, especially for grid connected equipment. It's across the board worldwide, driven mainly by Germany, because of production-based incentive programs there (utilities are required to pay a premium for renewable energy).

Charlie Thomas, a manager of environmental funds at Jupiter Asset Management in London, pointed out that some wind turbine manufacturers are profitable now, his favorites being Vestas Wind Systems of Denmark and Gamesa of Spain. He noted that their stocks haven't performed well lately because investors jumped the gun last year, driving prices so high that "alternative energy became a bubble issue." Now they are digesting last year's gains.

Gamesa trades at only 12 estimated 2005 earnings (Vestas trades at 16 times). Gamesa's stock rose 67% last year, making it one of the best performing energy companies, alternative or not. Gamesa makes good turbines at the right prices, he explains. Its main markets are Spain and Latin America, and sales to China are increasing.

Timothy O'Brien, manager of the Evergreen Utility and Telecommunications fund, doesn't invest directly in wind technology, saying that "an awful lot of money has been poured into this, and the returns have been de minimus." He invests in FPL Group, the Florida utility that is largest wind developer in the U.S. (that also has nuclear holdings, which is why many social investors stay away).

Although solar companies aren't as far down the path to commercial viability as wind producers, Charlie Thomas likes a few tiny companies including Carmanah Technologies, a Canadian company that incorporates solar panels into marine lights and bus shelters; Solar Integrated Technologies, a British company that makes solar roofing materials that can be unrolled like mats; and Romag, a British glass maker that BP has contracted to place solar panels into glass panes.

He feels less optimistic about companies that make fuel cells and has cut his investment in the sector because most companies just don't have earnings. "Companies that are just bets on future growth can suffer," he said. "Long term, there will be breakthroughs that make these technologies commercially viable, but so far it's more science fair than reality."

Wild Oats experiments with new business model

Wild Oats Markets (OATS), the second largest natural products supermarket chain in the U.S., has been experiencing growing pains for years. Now, the company is looking at a new business - selling its 700-item private label line outside its own stores. It is setting up pilot programs with Stop & Shop in the Northeast and online grocer Peapod.

In a test of store-within-a-store departments, Stop & Shop, with 343 stores in New England, will sell Wild Oats brand grocery items and holistic health products. Peapod will begin by stocking shelf-stable and grocery products from OATS for Chicago area customers.

This could be a fruitful way for OATS to add sales volume without increasing capital expenses. The news came during Wild Oats' quarterly earnings announcement Aug. 4. Comp store sales rose 1.5%; net sales rose 3.9% to $251.7 million, but higher costs and lower margins resulted in earnings of a penny a share. OATS says the problem is competitive pressure, the high costs of opening new stores and implementing various supply chain improvements. OATS stock dropped 41% in three days, in heavy trading volume.

Stock analysts weren't impressed with the store-in-store concept. Since both Stop & Shop and Peapod are owned by Ahold USA, rumors are that Ahold could purchase OATS in a couple of years if they get their act together.

The locations for the pilot haven't been determined yet. The private label items include a value-priced line and a premium line of supplements, , organic cotton clothing, personal care and fitness products, books and DVDs.

New Venture Capital Fund

Conservation International (CI) just launched Verde Ventures, a $6 million fund that will finance emerging businesses that benefit biodiversity conservation in CI's global priority areas.

Which states provide incentives for investments in businesses and seed capital funds?

The Community Development Venture Capital Alliance (CDVCA) just finished a survey of states that have enacted legislation to promote more equity investment.

18 states have state tax credit programs for investment directly into businesses or seed capital funds, mainly in the Midwest and Mississippi Valley. Most of the states have a median GDP per capita below the national median of $30,192 (2003), and have attracted little or no venture capital from traditional sources. The wealthiest states in the nation, where the established venture capital communities are, generally don't have such programs. The exceptions are New York and Colorado. New York’s tax credit program is limited to 71 designated “Empowerment Zones” - economically distressed regions. Colorado requires half of all investment to occur in under-invested urban and rural areas.

Most state tax credit programs have been enacted in the last five years. Seven states have committed more than $600 million to state fund of funds programs. Here, the state guarantees investors a fixed-rate of return by promising tax credits in the event the fund of funds doesn't deliver the promised return. The fund of funds makes equity investments into venture funds promising to make, or to consider, investments in that state. Oklahoma began its program in 1992; the other six states all adopted their programs so recently that they have not yet begun investing.

Email cdvca@cdvca.org for the full report.

More money for environmental technology in Canada

Canadian finance minister, Ralph Goodale, announced the country would sell its remaining 19% stake in oil company Petro-Canada, and use some of the proceeds to bolster development of environmental technologies. Ottawa plans to boost spending by C$1 billion (US$775 million). Over the next two years, it will give C$200 million to the Sustainable Development Technology Canada foundation - which addresses climate change and air quality - and C$800 million for environmental technologies over the subsequent five years as opportunities arise. The kinds of technologies that might benefit include fuel-efficient or alternative-fuel vehicles, clean coal technologies, renewable energy and cellulose ethanol technologies.

Selected recent news stories from the daily news at www.sustainablebusiness.com

Alternative energy VC fund formed in TX.

Stuart Energy Awarded CIDA Funding for Business Development in China and India

Trulite Secures US$500,000 Investment for Hydrogen Storage Development

Alternative Building Materials Co., Structures USA, Goes Public

Konarka Acquires Siemens' Organic Photovoltaic Research Activities

United Natural's Healthy Again?

Green Mountain Coffee Roasters Opens $9 Million Distribution Center

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Feature Story:

Investors Preserve Forests

People that want to invest for high environmental impact will be happy to learn of a new vehicle - you can invest directly in forests and preserve them!

Since the early 1980s, institutions such as universities and pension funds, have placed some $12 billion in timberland to safely diversify their portfolios. It is estimated that high net worth investors ante up as much as $3 billion of the $12 billion, according to a new group, Forest Legacy Investments, LLC, that hopes to apply this model to sustainable investments.

In previous *Progressive Investor* issues, we profiled Precious Woods, the only sustainable publicly traded forestry company (located in Switzerland) and we have looked at our contributing partner, Lowell Blake Associates' (LBA), innovative program that protects forests in New England while providing returns to investors.

By managing forests sustainably, Lowell Blake returned 4% tax-free income to clients and then donated 22 miles of lake and river frontage in Maine for conservation. In 2003 they established the LBA Forest Stewardship Initiative, LLC and the 2003 Vermont Timber Associates, LLC to purchase and manage hardwood timber parcels in New York, Vermont and/or Maine.

Forest Legacy Investments (FLI) plans to use this strategy nationwide as an innovative investment model that uses sustainable timber management as a means to preserve forests.

"Current conservation models are mostly philanthropic," points out Chris Fountain, managing director of FLI. "People donate money to conservation groups and qualified land trusts. We believe we can eventually double the amount of forestland conserved each year in the U.S. using our model, which puts these lands into the hands of investors to make money and then donate the land to qualified land trusts.

Not only will that attract more dollars for forest preservation, but investments can be leveraged to preserve much more land than simple donations can. Donating $1 million to conservation preserves about 500 acres after 50 years. If the principal and profits are reinvested every eight years for 50 years, that same $1 million preserves 6,500 acres.

How does it work?

FLI purchases a block of land and employs sustainable forestry methods to provide returns to investors over an approximate six- year harvesting period. After the term ends, they donate the land to a qualified land trust to be preserved in perpetuity. Investors receive principal and interest during the harvesting years. Investors also may receive tax deductions for the donated land.

"We purchase the land, return the investors' money with a healthy return, give them tax benefits and lock up the land in perpetuity," proudly states Chris Fountain.

FLI plans to close their first fund, a $5 million fund (minimum investment: $25,000) by the end of 2004. They are also raising capital for other larger funds, all of which are open only to accredited investors.

The first parcel for the $5 million fund will likely be a contiguous tract of 1500-3000 acres in Washington, Oregon or California. Once the fund is fully subscribed FLI will purchase the land - they are considering three parcels for purchase, and are in the due diligence process for lands for other funds.

They look for land that has both high timber value and high conservation value. "We purchase land based on what's available and what's in dire need of protection with high timber value," Chris explains. "We have a network of people working with us - Ph.D's in forest economics, timber investment management organizations that own large tracts of timberland, land trusts around the country - to identify properties that are on the market and that need protection.

The model works by harvesting enough trees to provide a return to investors over a period of time. FLI will not harvest old growth, of course. Since the optimal time to harvest a tree is between 45-65 years, all the trees 35 years and younger remain on the stand and will continue to grow when the land is put into conservation. "There will be plenty of biomass left on properties when they are turned over to a land trust," says Chris. FLI and its land trust partners also plan to replant forests with native species, to begin restoring forests to their natural ecosystems.

A million acres of privately- held land are turned into subdivisions or commercial uses like shopping malls and parking lots each year. "The most important reason to preserve many pieces of land is to contain urban sprawl," Chris explains. "A piece of land might be outside city limits but may be very valuable to developers, and the city and state governments need a way to conserve it. Other properties may have valuable habitat or may tie together fragmented, but protected parcels.

A 3,000- acre parcel on a North Cascades river in Oregon is an example of the kind of land they are considering. Not only does the land provide habitat for five species of salmon, but it links a critical habitat riparian zone to a much larger conservation area. Purchasing this property would prevent development along the riverfront and lower foothills, and there is an adjacent 2,500 acre parcel that could be purchased in the future, further expanding the protected area.

"People understand timber as an investment and that's our skill set too," says Chris. "We're excited to be able to put our skills to such good use."

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For more information, please contact Chris Fountain: chris@forestlegacy.com. The website is being updated and expanded over the next couple of weeks: www.forestlegacy.com

Please ask me to email you the back issues of *Progressive Investor*:

Issue 7: Innovative Investments

Issue #12: Precious Woods Profile; Energy Tech Conference; Venture Fairs in US & Europe

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THE PROGRESSIVE INVESTOR

Feature Story:

Where Investors and Clean Tech Companies Meet

About 60 emerging clean technology companies will have the opportunity to pitch their business case to an audience of investors at two forums this October, the 17th NREL Industry Growth Forum, October 18-20 in Orlando, Florida and Cleantech Venture Forum V on October 25-27 in Toronto, Canada.

The National Renewable Energy Lab (NREL) forum is the longest running in the U.S. and is limited to clean energy companies. Cleantech Venture is open to all clean technologies; presenting companies range from fuel cells to wastewater treatment, from biodegradable food serviceware to building materials.

Both forums emphasize education and support. Presenting companies receive coaching on their presentation and style beforehand, and then, after a 10- minute presentation, the NREL event features a 15- minute "roasting" session from a panel of investors.

We spoke with Dr. Marty Murphy, Ph.D., chair or NREL's Forum and Manager of the Enterprise Development Program at NREL, about the growth of these forums and investor interest.

PI: When we last reported on the state of venture capital a year or two ago it was in the doldrums. How has that changed?

Marty Murphy: There has never been a lack of venture capital. We were in a tough environment, which meant only a company with a slam dunk business case could win investments. A lot of money has been sitting on the sidelines for a long time because investors viewed the deals as too risky. In a hot market the same companies may get double the investment and be pursued by several groups. Now, we're starting to see that money be freed up. Company valuations are still somewhat depressed - they aren't what they were even three years ago - but they are beginning to rise. There is competition now for some deals.

PI: A report by clean energy venture capital (VC) firm, Nth Power, www.nthfund.com points out that although clean energy tech is still a tiny portion of VC investment overall, it has grown from less than one percent to three percent in just a few years; clean tech in general is at five to six percent according to CleanTech Venture.

Marty Murphy: When we started doing the Forum in 1995, we were lucky to get a dozen investors sitting around the table and maybe 3 or 4 could write a check. In our last Forum we had 100 investors and every one of them could write a check. About three companies get financing out of the 30 business case presentations - that's a good number. In earlier years, one or two might get financing and it would take a year to eighteen months to close the deal.

And now, I'm constantly talking to new investors who want to get into energy technology investments. I hear the big investment houses like Goldman Sachs and JP Morgan are showing interest too.

Close to 100 companies applied to present their case at the Forum this year. Investors want to hear about new technologies even if the story isn't compelling yet. They are broadening their horizons and want to look at many different deals and technologies.

I tell companies to get as much exposure as they can. Since a VC firm typically looks at 150-200 deals before they invest in any, a company needs to get in front of lots of VCs to get investment.

A goodly portion of the presenting companies graduated from our clean energy incubators, a partnership with the leading business incubators around the country. They enter the incubators as seed stage companies and when they come out they are ready for at least early stage venture capital. Of the 32 presenting companies, six are from our incubators this year.

The top incubators have a great record. The Rensselaer Incubator is probably the oldest tech incubator in the U.S. Out of 190 graduating companies since 1980, 81% of them are still in business.

PI: Are investors more interested in any clean energy type than others?

Marty Murphy: We're not seeing quite as much in fuel cells, probably because there has been a lot of investment there and they are waiting for things to happen. Fuel cells are kind of where I think solar was 20 years ago. There is a lot of interest in photovoltaics, power electronics, wind (smaller wind turbines), and biomass.

Although most people think of venture capital as the main route to financing, acquisitions are probably a more commonly used approach. We're looking at getting more involved in that area as we go forward with the Forum.

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Contact Marty.

NREL's Industry Growth Forum
Cleantech Venture V

Learn about the clean energy incubators

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THE PROGRESSIVE INVESTOR

Feature Story:

A New Way to Invest in Clean Energy:
The WilderHill Clean Energy Index (ECO)

Green investors can soon invest in a basket of clean energy stocks through the new WilderHill Clean Energy Index (ECO) about to debut on the AMEX exchange in the U.S.

It's the brainchild and consummation of a dream for Robert Wilder, Elias Azrak and Josh Landess, long time clean energy advocates. Wilder, with a Ph.D. in environmental policy and technology and a long time academic who publishes extensively on the topic, left his job to launch the index. Azrak is an investment banker specializing in advanced energy and transportation technologies. Landess is a contributing editor at EVWorld.com, an online magazine that covers green transportation.

The dream started about five years ago when they created a test index in their "garage," aka a small website in cyberspace www.h2fuelcells.org, consisting of companies with zero or low-carbon technologies. When the website received some 100,000 hits a month and countless requests to buy either the index or a fund mirroring it, they knew they were onto something. The partners broadened and formalized the index, and today the "WilderHill Clean Energy Index" - currently made up of 39 of the top clean energy companies - resides on AMEX under the symbol ECO.

From the start, Dr. Wilder's vision was to create an index that would be a benchmark for the sector, as well as a means to invest in clean energy as a whole. It is widely known that funds based on passively managed indexes not only outperform many actively managed mutual funds, but also have lower costs for investors. Investors don't place money directly into an index, they put it in a fund that mirrors the index, such as Exchange Traded Funds (ETFs). When Powershares, a company specializing in ETFs, offered to create a fund that mirrors their Clean Energy Index, Wilder and Azrak decided to put the index on AMEX. "It costs tens of thousands of dollars each year for AMEX to calculate the index," explains Wilder. "When Powershares came forward that's when we decided to take the plunge."

Although Wilder's goal is to eventually have an index composed of clean energy companies worldwide, because of certain rules, this index consists of U.S. companies and a few foreign companies that trade on major U.S. stock exchanges, or have ADRs over a certain volume (an ADR is a way for U.S. citizens to purchase foreign stocks without going to foreign exchanges). Therefore, major industry players like Vestas and Gamesa are not currently represented on the WilderHill Index, but may be as they grow in size and begin to trade globally.

It's generally a small cap index comprised of pure-play companies, but there is a limit to how small - a company has to have at least a $50 million market cap and must trade at a minimum of $1 per share to get in. That leaves out the tiniest and riskiest public companies. Other criteria are qualitative: no fossil fuel, oil or coal companies. "We're including companies that stand to benefit substantially should global warming and carbon become more of an issue, and those that may grow as society moves toward the use of cleaner energy and conservation," says Wilder. "It consists of companies that a green energy investor, or those seeking diversification, might want to invest in."

Even though General Electric is now the world's second largest wind turbine manufacturer, making a big impact on wind energy, and Shell Solar and BP Solar are among the largest producers of solar systems, they aren't in the index. If a company dabbles in solar but their main business is oil, they are out. "We would like a company to derive a substantial part of their revenues from these technologies to be considered for an inclusion in the index" adds Azrak.

With GE, beyond their involvement in nuclear weapons and other negatives, the overriding reason they are excluded is when the stock price of this immense company moves it doesn't reflect its activity in clean energy, or the clean energy sector as a whole.

So far Wilder and Azrak are allowing hydro, but as an insignificant percentage of the index. Whether to include companies with exposure to nuclear has been a difficult decision. An advisory board rebalances the index quarterly, adding and removing companies. FPL Group is currently in the index even though it has nuclear exposure because it is the largest wind energy provider in the US.

Of course, like any investment in emerging companies, an investment in the ETF based on this index should represent less than five percent of an individual's portfolio. The ETF is in the midst of a 75- day waiting period with the SEC - it could open to investors through Powershares sometime in the coming months.

Index Components as of: 09/15/04		
Company Name	**Symbol**	**% Weighting**
Zoltek Inc.	ZOLT	3.88%

Energy Conversion Devices	ENER	3.68%
FPL Group	FPL	3.67%
Quantum Technologies	QTWW	3.57%
Idacorp Inc	IDA	3.42%
Praxair Inc	PX	3.35%
Active Power Inc.	ACPW	3.31%
Central Vermont Public Service	CV	3.29%
Evergreen Solar Inc.	ESLR	3.21%
DTE Energy	DTE	3.20%
Air Products & Chemicals	APD	3.16%
Kyocera Corp - ADR	KYO	3.00%
BOC Group PLC - ADR	BOX	2.88%
Fuelcell Energy Inc.	FCEL	2.78%
Ultralife Batteries Inc.	ULBI	2.76%
Hydrogenics Corp	HYGS	2.75%
EMCORE Corp	EMKR	2.68%
Calpine Corp	CPN	2.57%
IMPCO Technologies Inc.	IMCO	2.49%
Plug Power Inc.	PLUG	2.48%
Intermagnetics General	IMGC	2.44%
Kemet Corp	KEM	2.41%
C&D Technologies	CHP	2.38%
Mechnical Technology Inc.	MKTY	2.18%
American Superconductor Corp	AMSC	2.17%
Medis Technologies Inc.	MDTL	2.17%
UQM Technologies	UQM	2.14%
Maxwell Technologies Inc.	MXWL	2.13%
Ballard Power Systems Inc.	BLDP	2.10%
Capstone Turbine	CPST	2.05%
Amer Power Conversion	APCC	2.02%
Power Integrations Inc.	POWI	1.99%
SATCON Technology Corp.	SATC	1.97%
Magnetek Inc.	MAG	1.91%
Distributed Energy Systems Corp.	DESC	1.85%
Itron Inc.	ITRI	1.80%
Echelon Corp.	ELON	1.65%

Power-One	PWER	1.63%
MGP Ingredients Ltd.	MGPI	0.88%

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Learn more: go to www.amex.com and enter the symbol ECO.

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THE PROGRESSIVE INVESTOR

Feature Story:

Alternative Energy Stock Update

With oil prices up, energy stocks went for a ride this summer. How did the alternative energy stocks fare and how are they positioned now for investors? We spoke with our research partner, Walter Nasdeo, Managing Director with Ardour Capital Investments to find out. Ardour is a registered broker/dealer that provides research and investment banking services for public and private companies in alternative energy.

PI: What's been happening with the stocks over the past few months?

Walter Nasdeo: As spring ended, some of the stocks in the sector were up nicely. For example, Fuel Cell Energy (FCEL) was looking at $20, UltraLife Battery (ULBI) was in the mid-$20s, American Superconductor (AMSC) was well into the $20s. Volumes were up and things were looking good. Then, in mid-summer … Boom! The bottom fell out.

This had nothing to do with changes in company fundamentals. The reason the stock prices went up in the first place was spurious - although there is no connection between oil prices and fuel cells (fuel cells make electricity, not gasoline!) many people assumed fuel cell companies would benefit from higher oil prices.

I was getting calls by everyone to give an opinion on the price of oil and the price of alternative energy stocks. I kept warning people to expect a hard landing when people realized there really is no correlation.

When the pullback hit, it hit pretty hard - FCEL dropped from $18 to $8, losing much of its market cap. Now it is clawing its way back and we're starting to see a turn-around - it's at $10.90 today.

The sector is moving along on the technology side, but that really doesn't determine stock price. There is a pattern that repeats itself in this sector:

A company makes a positive announcement or there is an announcement/ short-term trend that affects the sector … this leads to a short-term pop in the stock and a number of peers will pop too … Then we see a pullback … then the stocks rise again over the course of the next quarter or so … and it starts over again.

While the companies dig themselves out of the hole returning to a reasonable price level, investors should see this as a buying opportunity.

In order to make money in this area you have to be willing to trade these stocks. You need to sell some when they are unreasonably high and take the opportunity to buy some during the inevitable pullback that follows. If investors do this, they will do well.

PI: If you hold the stocks long term, say 10 years, won't the trajectory generally go up?

Walter Nasdeo: As a parent, would it make sense for you to buy 100 shares of Plug Power (PLUG), Fuel Cell Energy (FCEL), American Superconductor (AMSC), and Mechanical Technology (MKTY) and put it in a portfolio for your child? Yes, by all means. You only three of ten stocks to hit. If they hit big enough you're in good shape.

If you are looking at it from a shorter term perspective, there needs to be a little buying and selling to keep yourself whole. This is certainly true for portfolio managers who need to show returns each year!

What happens way too often - to the detriment of the companies, the space in general and investors - is that investors/ portfolio managers happily ride with a stock as it rises. When the inevitable pullback occurs, they ride it unhappily all the way down. Then they sell it because it's so far down, bad-mouthing the stock and the sector. This is how a lot of investors lose money on stocks.

PI: When a stock falls so much in value, it's hard to have the confidence that it will go back up again, or how long it will take. Of course, in this case, there is a pattern that investors should be aware of.

Walter Nasdeo:
Investors think if they hold onto a good stock it will just keep going up. If it goes up $1, they don't want to sell when it may go up to $2. I say, take a disciplined approach. Take a little profit when a stock is up - after that you are playing with the house's money. Sell half the position when a stock is up 25-30% - then you will always be ahead. Buy some more when it pulls back.

PI: How do you feel about investing in the alternative energy sector right now?

Walter Nasdeo: The sector is moving steadily along in terms of ramping up revenues and commercialization. I'm optimistic - I think we will see positive announcements from some of the companies this fall.

Since these are development stage companies and we have difficulty projecting significant revenue for them, I would look at other ways to evaluate them as investments. I look at the relative "bulk" of a company

- do they a management team, a lot of cash on the balance sheet, a later stage development product in the works?

Many people ask me whether these particular companies will make it or whether other companies with better technologies may outpace them. This is the hardest thing for me to explain to people.

There will always be technologies that are better, cooler, and more efficient a couple of years behind whatever we look at today. We see some truly mind-bending technologies especially on the solar side, but we know they are years and years away.

Even if another company has the greatest technology known to man it has to go through the very difficult task of raising capital to commercialize it. The companies that are on the stock market today have already succeeded in raising the money they need to bring their products to market - being well funded allows them degrees of freedom newer companies just don't have.

They also have later stage products developed, management teams, facilities, and strategic alliances in place - these take years for early stage technology companies to develop. No customer wants to be the first to buy a company's product - companies coming up the pike have to go through all the early stage growing pains and crash through the adoption door to start selling products.

The bigger companies in the alternative energy space now have market caps at a level where investors can feel comfortable buying some - FCEL ($510 million), PLUG ($453 million), AMSC ($358 million). I don't cover Ballard (BLDP), but they certainly would fall into this group ($743 million).

PI: Do some companies in the sector stand out as better investments to you?

Walter Nasdeo: I actively cover (have Buy/Accumulate/Sell ratings) on 16 companies, and plan to increase that to about 20 by the end of the year. I like four companies the best: Plug Power (PLUG), Fuel Cell Energy (FCEL), American Superconductor (AMSC), and Ultralife Batteries (ULBI).

FCEL just made an important announcement - it is now certified as an ultra-clean provider by the California Air & Water Resources Board. That's very important. It means it can site its power plants there.

FCEl is very strong financially. They have a lot of cash on the balance sheet, a product that is well into development - getting certifications and things like that - they have an infrastructure in place - they don't have to go out and spend a lot of money on a new facility. They also don't have to spend time and energy putting together a complete management team - they have that too. All that is extremely positive.

In addition to commercializing their core product, Direct Fuel Cell Power Plants, they are beginning the development process of solid oxide fuel cell technology, which will kick in as later stage products. That means the company won't hit maturity and then decline anytime soon. Many companies in the field have just one product and that's it.

FCEL has lots of potential. It was a real buy at $8 at the beginning of the current pullback, but there it is still a buying opportunity in the current $10-11 range.

PLUG was a real buy at $4.90! Just over the past three weeks it's risen to over $6. Look at the balance sheet - they have $90 million in cash which means they are not going away. They won't be taken out for their cash because they are too tightly held. I can see them crawling up to $7.50 -$8 before the end of the year.

I like both companies that make superconducting wire - American Superconductor (AMSC) and Intermagnetics General (IMGC), although the latter isn't a pure play. Many investors like IMGC because the parent is very profitable making MRI machines for the healthcare industry.

Ultralife Battery (ULBI: $225 market cap) is selling tons of a great lithium ion battery for US military radios. They are very fiscally conservative - it's great to see a company run such a tight ship.

PI: What about Quantum Technologies (QTWW)?

Walter Nasdeo: I like them a lot. I will have a BUY rather an Accumulate rating on them when some problems with product delivery and revenue are rectified this quarter as they say they will be. They are certainly a leader in their market, integrating vehicle fuel cells systems and making 10,000 psi storage tanks.

PI: How do you feel about Evergreen Solar (ELSR)? Investors want a solar company!

Walter Nasdeo: If you find one please let me know! I have a hold rating on Evergreen. They recently raised enough capital to get them to 14 MW of output, but they need another $100 million to get to 50 MW of output, which is where they need to be, and that's a lot of money.

I like the people at Evergreen and find their string ribbon technology interesting - they just have to get the price down. I don't know how they will be able to do that. And although they sell all the products they can make, they don't make very money because they have no pricing freedom. The big companies like Kyocera and Sharp set the prices.

PI: And what about Hydrogenics (HYGS), a Canadian fuel cell company I often hear about?

Walter Nasdeo: I've got a REDUCE rating on them now. I like the people but my complaint is that they lack focus. Originally they were going to make a very good fuel cell stack - now they are doing many things around that which detracts from what I think should be their main focus. They aren't making enough progress.

In general though, I'm very positive about the sector. After Labor Day everyone returns to work and gets back down to it. Volumes pick up and stock prices stabilize somewhat. The Dow made it through the summer pretty well and Nasdaq is up a bit, which are good indications going into a much more active season.

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Note: Our other alternative energy research partner, Adams Harkness (AH) expects positive news from the fuel cell industry as it heads to one of the leading conferences for the space in October, the Grove Fuel Cell show in Germany.

AH has a Buy rating on Fuel Cell Energy (FCEL) because of continued improvement in fuel cell orders. They note FCEL has close to three years of operating cash available, and that it is the only fuel cell player actively participating in coal-related technologies, including the latest round of DOE's Clean Coal programs.

AH has a Strong Buy rating on Quantum Technologies (QTWW) as it continues to move forward converting 30+ hybrid Toyota Priuses to run off hydrogen instead of gasoline for the South Coast Air Quality Management District in California. With close to $70 million in cash, QTWW also has a strong balance sheet.

AH is concerned about Plug Power's (PLUG) ability to penetrate the back-up power market long term. They upgraded it from Reduce to Market Perform because PLUG's shares could rise along with positive sentiment for the fuel cell group as a whole.

AH also has a Buy rating on IMPCO Technologies (IMCO), a company that provides alternative fuels for industrial vehicles. Ardour Capital doesn't cover IMCO.

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