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By Lisa Sorg
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Fossil fuels have yet to go the way of the dinosaur, but public sentiment may be cooling toward traditional energy sources. Record oil prices have jacked the cost of gasoline to nearly $3 a gallon. Scientists warn of drastic climatic change due to greenhouse gases, a byproduct of coal, oil and gasoline emissions. And nuclear power, while touted as cleaner than fossil fuels, is still hampered by the pesky problem of radioactive waste.

Renewable energy's environmental and technological promise has prompted some investors to funnel at least a portion of their dollars into alternative energy stocks, mutual funds and index funds. Although alternative, or clean, energy companies don't receive the billions of dollars in federal subsidies afforded the fossil fuel and nuclear industries, it still represents an estimated $40 billion global market, and is projected to reach $167 billion worldwide within the next decade.

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These upstarts in the solar, wind, biomass and fuel cell sectors carry the financial risks of any fledgling company trying to commercialize technology -- chances, nonetheless, that some investors are willing to take. "One of the biggest questions you have to ask yourself is how much of a relative underperformance are you willing to take for your social goals? 'How committed am I to this?'" says Kevin Moore, a San Antonio financial adviser specializing in socially responsible funds and owner of the firm, i*financial. "When timber and oil are performing extremely well, your relative performance is going to suffer."

As investors learned during the dot-com boom and subsequent bust, companies that look promising on paper may not be profitable. For example, while the technology behind fuel cells is mature, it has yet to find a mass commercial market. Moreover, small companies can be easily battered by market turbulence, which happened in 2002 when alternative energy took a hit during an overall weak market period. "They've yet to be entirely proven as technologies and companies," Moore says.

Nonetheless, the flurry of new index funds, including the May 18 launch of the NASDAQ Clean Energy Index, is one indicator of the interest in clean energy investing. While it's too early to evaluate recent indexes, Moore says several established indexes are performing well. The Wilderhill Clean Energy Index is up 22 percent year-to-date and the New Alternatives Fund posted an 18 percent gain over last year.

Strategies

A sound investment strategy for clean energy is similar to that of any other market play: Diversify among sectors and categories. Spread investments over renewable fuels, energy storage, power generation and materials. Expect volatility, depending on legislation and public policy.

Wind power took a hit in 2004 when Congress failed to renew the production tax credit; it has since been renewed, buoying the industry. Solar power companies will likely benefit from the California Public Utilities Commission's $3.2 billion in incentives for solar over the next 11 years. Last year, the Texas Legislature updated the state's renewable energy portfolio to require 5 percent -- or 5,880 megawatts -- of electricity to be generated by alternate sources by 2015. To spark growth in other sectors besides wind, the law requires that 500 megawatts come from other sources such as solar and biomass.

Moore advises clients to examine their "tolerance level" for investing in companies involved in "dirty energy" -- since a number of them are involved in developing renewable energy sources. For example, General Electric is heavily vested in nuclear energy, but it also purchased AstroPower -- which produces solar cells that convert sunlight into electricity. In addition, GE invests $70 million annually in wind turbine technology. BP and Shell also have embarked on alternative energy programs.

Tatjana Walker, a diabetes researcher at the University of Texas Health Science Center, owns stock in two solar companies, Evergreen Solar and Spire Corp., but she also had Enron shares before the company crashed. "I bought solar because I believe in the concept so strongly that I knew I could live with a loss or a failure," Walker says. "Fundamentally I want to make some money and see better solar products on the market."

Walker's solar investments have paid off. When Spire's stock quadrupled she sold some shares to buy Evergreen, whose performance allowed her recoup her losses from Enron. "I felt dirty about the Enron investment. I suppose if it had made money I might have felt clever, but when it crashed I just felt like I'd been a part of something nasty. In contrast, Spire and Evergreen are companies I plan to hold for a long, long time."

Marianne Kestenbaum has balanced her family's IRAs in a socially responsible mutual fund and several midcaps. "Who will be able to drive us into alternative energy sources? Who has the capital to move it forward?" asks Kestenbaum. "The people with the capital aren't the small startups. Until we have some consistency and parity in subsidies for alternative energy then it will be very difficult to pursue these sources in the private market. I'm torn between how to make it happen faster and faster and who has the resources for it."

Credited with launching San Antonio's curbside recycling program, Ruthie Premack is resolute in investing in only green stocks, including clean energy. Her family's lifestyle reflects her investment commitment: At home and at their law office, the Premacks buy only 100 percent post-consumer recycled paper products and plastic products made from corn. They purchase wind energy through CPS Energy's Windtricity program and own three early-model Toyota Priuses. Premack says the social and environmental benefits of her investments are equally important as the financial returns. "When we consider investing in alternative renewable energy, there has to be a positive environmental, economic and community impact," says Premack, who invests through the Calvert Group, which screens investments for various socially responsible criteria. "We would rather have a lower rate of return and (not have) the earth exploited. For us, that is a higher rate of return. You pay now or pay later."

Clean energy investing resources

• NASDAQ/Clean Edge Index (CLEN) cleanedge.com
• Wilderhill Clean Energy Index (ECO)
• Wilderhill New Energy Global Innovation Index (NEX) wilderhill.com
• Cleantech Index (CTIUS) cleantech.com
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