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Alternative Energy ETFs Respond to an Increase in Demand

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The chatter from many analysts of the oil crisis say that "it's different this time." Oil can only go up, most suggest. (Keep in mind, few analysts beyond T. Boone Pickens called $100+ per barrel one year ago.)

So what's really happening? After all, huge increases in demand from emerging and developed markets, alongside supply difficulties, account for crude in the $70 per barrel range. Only a weak dollar and speculation have driven the rest. (See "We're Running Out of Oil" Causes June Gloom.")

As I pointed out a few weeks ago, however, the U.S. dollar is essentially firming up since the last Fed rate cut on April 30. That leaves speculation.

Hedge funds are still looking to win going long during peak usage in the summertime. Individuals with access to ETFs like the **United States Oil Trust** (USO) see few other places to profit in a recessionary environment. Even commercial users of the commodity are fearful that if they don't lock in these high prices, they'll be left in the doldrums if prices climb further. (Californians remember that this fear cost Gray Davis his governorship to Arnold, but I digress.)

Yet speculation has a way of turning on a dime. Even without an obvious catalyst for why the oil bubble will eventually prick, something will happen. Call it the "Reverse Butterfly Effect."

Remember, in the 80s and 90s, oil barely budged when problems in

Nigeria occurred or when hurricanes hit oil rigs. Today's hypersensitivity in oil trading ignores a number of realities, including the possibility of new drilling in the U.S., the importing that we do from Canada and Mexico, as well as alternative energy development. In other words, the unprecedented volatility of oil (record price swings) cannot continue indefinitely.

I am not suggesting that the irrational exuberance of crude-only investing can't push the "per barrel" to $150 or $200. What I am suggesting is that the current volatility makes the risk-reward for being in oil alone a poor decision. Stick with my long-time favorite, the **Dow Jones AIG Commodity Index** (DJP).

At some point, oil will go down. When few seemed to believe that housing demand would slow, it screeched to a halt. When few believed we could possibly provide enough supply of homes, builders overbuilt. The rest is history. (And quite frankly, the same thing happened with tech company shares in the Nasdaq bubble of 2000.)

But even if you do not believe that oil will go down in dramatic fashion, do you really want to be part of the herd betting on rising oil prices? What about an area where a small group of qualified suppliers are responding to a genuine increase in demand - the demand for alternative energy?

Here are a number worthy of discussion:

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PowerShares Global Clean Energy Fund (PBD). This one is comprised of mid-sized growth-oriented corporations. Each focuses on renewable sources of energy and/or technologies that will facilitate cleaner energy. The benefit here is that it is diversified clear across the globe. Some would argue against its lofty P/E, yet the return on equity is near an enviable 15%!

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