From Bloomberg, August 18, 2008
http://www.bloomberg.com/apps/news?pid=20601039&sid=adf.DJToAK68&refer=home

Climate-Change Investing Is Wrong-Headed Move: John F. Wasik

Commentary by John F. Wasik

Aug. 18 (Bloomberg) -- My neighbor was palpably proud of himself when he mentioned at a backyard barbeque he had bought a specialized fund that invested in a solar-energy company.

When he asked me what I thought of his well-intentioned investment, though, I had to play killjoy. Instead of patting him on the back, I told him it was a bad idea.

While I sense that climate change is probably a man-made, global problem that needs to be addressed by all of us, as investors we often pursue the wrong ideas.

No doubt, there are dozens of ways to slice and dice the ``green'' sector. You can buy mutual funds that invest in broad alternative energy portfolios or narrow the field to only solar, water or clean-technology companies. All sound like great ideas on the surface.

Many of the newest green funds have attracted a huge amount of investor interest as there's more than $171 billion in more than 170 socially and environmentally screened vehicles, according to **Morningstar Inc.**, the Chicago-based financial- information company.

So much money has been invested in these stocks and funds that industry analysts are concerned that a bubble may be forming in some of these equities -- and may burst in some cases.

Solar-power stocks, due to worldwide demand, for example, are hot. Yet will these companies go the way of ethanol-producing firms and fizzle because they can't possibly meet global investor expectations?

Green Stocks

One fear is that green stocks are morphing into the next dot-com frenzy.

Everything is coming up roses for these companies: The world needs them, hydrocarbon-based energy prices are high and there's no end in sight to the appreciation potential for alternatives. Sound familiar?

You would only need to examine what happened to the biofuels market over the past year to get an idea on how investor exuberance ebbs and flows.

Remember when corn-based ethanol was touted as the antidote to high oil and gasoline prices? When a raft of scientists (and this columnist, too) noted that it would provide an insignificant fraction of U.S. fuel supplies, a new reality came to light. The biofuels frenzy has been further chastened by the fact it has contributed to high food prices around the world.

As if on schedule, biofuel stocks may have had their peak just as investors were piling in. One darling of institutions and individuals was **Pacific Ethanol Inc.**, based in Sacramento, California. It's down more than 70 percent this year.

Is the thrill gone for other alternative-energy companies just as they are attracting worldwide investor attention?

Diversified Funds

While I like diversifying through mutual or exchange-traded funds, they have notable risks.

Take the **Powershares Wilderhill Clean Energy Portfolio** exchange-traded fund. It seems like the right vehicle if you are excited about the prospects of energy sources that don't produce carbon dioxide.

It invests in a variety of shares in the alternative-energy, semiconductor, electrical component and related industries. Last year, the fund returned almost 60 percent. In 2008, it has fallen almost 30 percent.

It's not unusual for a small industry segment to be quite volatile. So why concentrate market risk in a handful of companies? Maybe major alternative-energy advances will come from the nanotechnology, biotechnology or semiconductor industries. They may even come from electric utilities or major energy companies. Why narrow your bet to less than 50 stocks?

Broad-Based Holdings

The predictable truth about investing is that you don't know where your best returns will come from, so why squeeze the field to just a few stocks and pare your chances of finding a winner?

That's why an alternative-energy or climate-change portfolio makes no sense if you are risk-averse. I want a broad-based fund that's going to search the world of stocks for winners.

My advice to my neighbor was to avoid narrow sector funds. Place an across-the-board bet on the entire market and you may earn higher returns over time and lower your risk.

In that spirit, your best way to address climate change is through **the Vanguard Total World Stock Market ETF**, which samples most major global exchanges, or the **iShares MSCI Emerging Markets Index ETF**, which invests in developing economies.

These funds may not earn you bragging rights for now. Few people crow about owning index funds, which have about as much glamour as dry wall.

Yet when it comes to tackling global-climate concerns, they may be the best way of investing in the widest possible array of public companies without making guesses on which technologies will be profitable.

While they won't make for scintillating cocktail conversation, they will help create a more hospitable personal financial climate over time.

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