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By G. Jeffrey MacDonald | *Correspondent of The Christian Science Monitor*

You can't ride off into the sunset with a hydrogen-powered SUV - or to a middle-class solar home. But as the decades-long transition away from oil begins to take shape, some ethical investors sense a bonanza.

This year's spike in oil prices has reignited passion for what's been a long-term quest to find stocks that turn not just turbines on the Plains but also profits on Wall Street.

Riding the wave of the future, however, requires keen vision and a strong stomach. Investors who have already jumped into alternative energy have had to make ethical tradeoffs or high-stakes gambles - or both.

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"Anytime you look at the situation 20 years out, it's just beginning to take shape," says Kyle Datta, managing director for research and consulting at the Rocky Mountain Institute. "But you're starting to see some of the players making the right moves."

How should you start making the right moves in alternative energy?

For starters, ditch those new-era daydreams. In a few years - or 50 - cars might run on something other than gasoline. But for the moment, the action lies in near-term developments that could ease the transition.

The most visible possibility involves biofuels, particularly ethanol, which is made from the fermentation and distillation of corn and other agricultural feedstocks. Ethanol can mix with petroleum-based gasoline; it now accounts for 5 percent of total gasoline sold in the United States.

That percentage is likely to climb to 13 percent by 2010 and to as much as 30 percent by 2025, according to the Alternative Energy Institute in Tahoe City, Calif. Two major reasons: First, legislative bans on the gasoline additive MBTE are fast creating a market for ethanol as a substitute additive; second, high crude-oil prices could hasten a new gasoline formula with more ethanol and less oil.

"The expansion of the ethanol industry may mean a less arduous transition to the hydrogen economy," says Alternative Energy Institute director Max Martina. Also important to watch: producers of clean-burning and efficient biodiesel, he adds.

Meanwhile, dollars are drifting into hydrogen research. Under President Bush's Hydrogen Fuel Initiative, the Department of Energy plans to distribute $1.2 billion over five years to research clean, cost-effective ways to generate, store, and transport this lightweight fuel. Democratic presidential candidate John Kerry has vowed to commit $5 billion to hydrogen-as- fuel research. For now, an untold sum of cash from angel investors, venture capitalists, and shareholders in a handful of public companies is propelling development of technologies that could in 20 or 30 years be as commonplace as today's refinery or portable gas tank.

But hydrogen fuel-cell engines won't be the norm anytime soon, experts warn. "It's not the fuel cell that gets you to double efficiency in the near term," Mr. Datta says. "It's making the car lighter and

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stronger that gets you there." Datta expects automakers to keep exploring carbon composites and other lightweight materials.

With these three trends defining the landscape, ethical investors have at least a base of knowledge to guide their decisionmaking. Now the dilemmas begin.

For example: How much sustainability is enough?

Investors can certainly find big, established companies with good potential for seizing new energy opportunities. But will multinational corporations advance your progressive cause - or compromise it?

On the plus side, big business has acquired a stake in renewable energy. Agribusiness giants ConAgra and Archer Daniels Midland have developed ethanol- production systems. British Petroleum (BP) has begun financing hydrogen research. Earlier this year, General Electric became the world leader in solar technology when it took over AstroPower in April.

That's enough for some investors. After years of wanting to invest in renewable power but rejecting every company as either too financially volatile or too socially irresponsible, Pax World Funds in July bought shares in BP.

"BP understands oil is limited; the end is in sight, and they want to stay in business," says Anita Green, Pax's director of social research. "We've seen a demonstrated commitment to invest in sustainable energy."

Not all ethically minded investors agree. Portfolio 21, a five-year-old fund based in Oregon, owns stock in five renewable energy companies but steers clear of major firms still committed to fossil fuels.

"That is something investors struggle with," says Doug Wheat, director of SRI World Group, an information clearinghouse for ethical investing. "The leaders are often the large conglomerates, where alternative energy is just a tiny fraction of what they do.... It puts socially responsible investors potentially at odds with themselves."

Of course, investors can fund the underdogs - small companies developing the next big thing in alternative energy. But they might need stomachs of steel.

Consider the experience of Portfolio 21. Share prices of two of its five alternative energy stocks, including Vancouver-based Ballard Power Systems, which enjoys coveted contracts with major automobile manufacturers, have sunk 45 percent this year. The other three have seen their shares slip between 7.5 and 30 percent. The fund has outperformed the S&P 500 in prior years, thanks only to the buoyancy of other sectors among its holdings. "It's pretty dismal," says cofounder Carsten Henningsen. "The stocks are companies that are immature, volatile, and therefore risky. But we look for companies that show promise for the long-term."

With companies prone to rise or fall sometimes 20 percent in one day, investors shouldn't make alternative energy more than 5 percent of their portfolios, cautions Robert Wilder, whose WilderHill Clean Energy Index became the first to chart the sector's activity when it debuted Aug. 18 on the American Stock Exchange. "If you had invested in computers in the early 1970s, you'd have seen the same thing. To me, it should be that way."

For the really brave, there's hydrogen. Though much of the research occurs at universities and private firms, some potential winners are selling pieces of their business on Wall Street. Datta likes those who make stationary hydrogen-power systems, since their know-how may prove valuable for future transportation. Two good bets for long-term success, he says, are Plug Power and Fuel Cell Energy.

But the landscape remains a guessing game. Until the picture clears, investing in alternative energy could mean not just identifying the best ideas, but also the companies with the longevity to see them through.

"There are going to be a lot of people sitting around in 10 years ... saying, 'I had the technology. I just couldn't get the cash,' " Datta says. "What's important now is to be setting yourself up for being in business when the big prize comes."

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