Wells Fargo Energy Report Marks Banking's Trend Toward SRI Research

Source: SocialFunds.com

NEW YORK, March 15, 2006 - Wells Fargo is taking something of a Jekyll and Hyde approach to climate change. In its Hyde persona, it petitioned the Securities and Exchange Commission (SEC) for permission to omit a global warming resolution from its proxy (SEC lawyers okayed the request) instead of engaging with the resolution filers to find a mutually agreeable way to comply with the request. In its Jekyll role, however, the company recently released a report entitled *Identifying the Opportunities in Alternative Energy* (PDF), which succinctly examines energy sources that help mitigate climate change and straightforwardly lays out the pros and cons of investing in them.

De rigueur, banks are issuing reports employing socially responsible investing (SRI) strategies, and this report is a welcome addition to the trend established by the likes of Goldman Sachs, Citigroup, Merrill Lynch, UBS, and Piper Jaffray. While these reports take in-depth approaches, the Wells Fargo report is meant more as a primer to orient individual investors to the alternative energy landscape.

Given its limited scope, it achieves its objective quite well, encapsulating the basics of the market in less than 20 pages. Credit for the tight balance between comprehensiveness and concision no doubt goes in large measure to Lloyd Kurtz, senior investment manager for Wells Fargo affiliate Nelson Capital Management, who provided editorial review of the report. Kurtz administers SRIStudies.org, an online annotated bibliography of quantitative research on SRI.

That said, the report takes a qualitative, not quantitative, approach. It focuses on the most promising investment opportunities in electricity generation and transportation. In electric generation, it highlights hydroelectric, nuclear, and wind power. It also notes momentum moving away from large-scale grids and toward distributed energy (which localizes power production), a trend favoring wind as well as solar, biomass, and hydrogen. In transportation, it focuses on ethanol and hydrogen.

The report divides investment opportunities into three tiers. First, many large companies have exposure to alternatives, such as General Electric (which became the world leader in solar by purchasing AstroPower last year), United Technologies through its fuel-cell division, or BP and Shell, which have alternative energy divisions.

"The drawback to gaining exposure to alternative energy through such companies, however, it is that the alternative energy divisions of these companies tend to be relatively small versus their core businesses," writes report author Sarah Douglass, Wells Fargo's vice president of investment research publications.

Second, smaller companies offer "purer plays" focusing exclusively on alternative energy, such as Denmark-based Vesta and Spain-based Gamesa in the wind sector and U.S.-based Evergreen Solar. However, it cautions investors against jumping without a net.

"For example, PlugPower, a manufacturer of fuel cells designed to generate electricity, and Ballard Power Systems, a company that focuses on developing fuel cells for the automotive industry, may look attractive from a technology and market-positioning point of view," states Ms. Douglass. "Upon further research, however, the stocks of both have been highly volatile since their public listings, suggesting that such stocks are not suitable for many investors and, if you are prepared to take on the additional risk, they should be considered only for the riskiest portion of your portfolio."

The report recommends gaining exposure to such companies through a diverse portfolio such as the PowerShares WilderHill Clean Energy Portfolio, an exchange traded fund (ETF) based on the WilderHill Clean Energy Index of 37 U.S.-based companies.

The third option, available only to "qualified" (read: "high net worth") investors, is venture capital investment in start-ups "that often have unproven technologies, but offer the potential for high returns, should these technologies prove successful."

While neither the investment options nor the market overview are intended to provide the kind of robust information necessary to make an informed investment decision, the latter gets readers further down the road than the former. The sections discussing each type of alternative energy in turn are incredibly well organized, providing a brief snapshot before listing advantages and disadvantages and then projecting the outlook. Some surprising information surfaces--for example an unusual link between hydroelectric and greenhouse gas (GHG) emissions, considered the primary cause of global warming.

"Reservoirs may produce substantial amounts of carbon dioxide and methane gas because of the decay of plant material in areas inundated," the report states. "The methane releases once the water is discharged from the dam and goes through the turbines."

"The only solution is to clear the reservoir growth," it adds.

The report takes an agnostic approach to nuclear, pointing out both pros and cons (as with all the other sections) of this "alternative energy" source that is generally avoided by SRI but regarded by some as a viable solution to climate change due to its minimal GHG emissions. In addition to listing environmental concerns over radioactive waste and security concerns over potential terrorist attacks on nuclear power plants, the report soberly notes that uranium prices nearly tripled between March 2003 and May 2005, a steeper incline than petroleum prices.

More News...

Printer-friendly version

E-mail this page

Feedback

- **Comment on this article**

Hot Topics | **News** | **Resources** | **Jobs**
About Us | Support Us | Sponsors | Press Room | Contact Us
Advisory Board | News Affiliates | Site Map | Privacy Policy | Disclaimer