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<http://www.minyanville.com/sectors/energy/articles/alternative-energy-alternative-energy-stocks-PowerShares/4/18/2012/id/40483?camp=syndication&medium=portals&from=yahoo>

## **Clean Energy May Have Finally Bottomed, Putting It on the Verge of Outperformance**

After a tough three years, recent changes to government policy could turn the sector around and provide a big opportunity ahead.

*Difficulties mastered are opportunities won.*

-- Winston Churchill

Alternative energy has been a heartbreaking industry to invest in over the years despite some incredible breakthroughs. The fundamental problem has to do with high costs to produce such energy, coupled with oil prices which, though high, are not at levels which make solar, wind, biofuels, etc., comparatively competitive.

Many companies in this space are heavily reliant on government subsidies. As solar producers know in Europe, that can be both a blessing and a curse depending on whether the period is one of growth or austerity.

Here in the US, subsidies for many forms of alternative energy are in the process of being phased out and replaced. Proposals are now coming out to restructure how to best get the industry to stand on its own two feet, centered around providing more targeted approaches to incentivize companies to be more cost competitive. The timing of this is interesting given that it looks like a bottom may be forming in alternative energy.

Take a look below at the price ratio of the **PowerShares WilderHill Clean Energy Portfolio ETF (PBW)** relative to the **S&P 500 (IVV)**. As a reminder, a rising price ratio means the numerator/PowerShares WilderHill Clean Energy Portfolio ETF is outperforming (up more/down less) the denominator/S&P 500.



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Weakness has been both long and severe relative to the broader stock market over the past three years; however, notice the far right of the chart. It does appear that a ratio bottom may be forming, coinciding with changes to government policy towards the sector. Could alternative energy now be on the verge of a true cyclical period of outperformance? There is an argument to be made that the combination of changes to policy here in the US and cuts in subsidies by Europe to solar and wind companies may cause the weak to falter and force more competitiveness into the industry, which in turn would make prices cheaper and more attractive to oil itself. Time will tell, of course, but I do think a big opportunity could present itself in the space sooner rather than later.