

GREEN INVESTMENT AND LEGISLATION

Higher energy prices alone could be the driver that moves these companies into the mainstream economy, but a number of legislative or regulatory actions could jump-start this sector and ignite rapid expansion and job creation.

by Andrew Geshwiler

Another summer of scorching temperatures and soaring utility bills is quickly coming to a close. For Tennesseans shoveling their disposable income into the cranked-up air conditioner, it really doesn't matter if this is a short-term weather pattern or a longer-term change of climate. What really matters is the question of how long we can keep this up. Can we continue to shovel on a little more coal to keep the AC chugging? In this difficult economy, can we afford to keep paying ever-rising energy bills? Can our environment keep up with the demands that our ever-increasing energy appetite requires of it?

At Wunderlich Securities we see a long-term path that places greater and greater emphasis on energy efficiency and non-carbon based sources of energy. This trend will play out over time in the open marketplace as emerging green technologies become increasingly price competitive. Two key factors are at play here:

- the increasing global demand placed upon existing, conventional energy resources; and
- efficiencies and economies of scale that will be realized as green technologies mature.

Wunderlich Securities initiated equity research for new energy economy investments in 2009. We follow companies involved in waste-to-energy, alternative energy, clean tech, smart grid, solar, wind, and energy storage. We seek to identify those companies that have superior technologies, solid financials, and a history of solid execution. We feel that it is important that investors seeking to participate in this market sector be mindful of some important facts:

- Investing in new energy economy stocks is not the same as ethical or socially responsible investing.
- Government spending on the new energy economy will be important as this sector fights to achieve cost parity.

- Companies don't invest in green technology just to make a statement—they do it to enhance profits. Every single Fortune 500 company is currently undertaking some program to increase their efficient use of energy or materials.
- This is not a fad. The wind industry now employs more Americans than the coal industry. This is a market measured in billions, and it will only grow.
- New energy economy stocks are highly correlated to traditional energy shares. If you already invest in traditional energy names, new energy economy stocks will not help you achieve greater diversification. New energy or clean-tech portfolio exposure is statistically equivalent to overall energy exposure.

Energy is the world's largest market by revenue, and it is a wonderful, magical thing. With the flick of a switch, a light comes on. Gas tanks can be filled on almost every corner anytime day or night. It is available almost without thought. But there is a great deal that goes on behind that light switch and that gas pump. Most consumers don't realize that Tennessee Valley Authority (TVA) generates nearly 70% of its electricity from coal. We see all those dams and think that surely much of our electricity comes from hydropower. Nope — a mere 6%.

Most folks filling their car at the pump don't know the source of that oil. It comes from that most volatile place, the Middle East, right? Actually, it doesn't. Most of our imported oil comes from Canada and Mexico. Saudi Arabia is number three. That oil is getting increasingly difficult and expensive to find, drill, and process.

The western world used to drive the energy markets. Not anymore. It is now a global marketplace for energy. Emerging markets throughout the world are struggling to their feet, eager to partici-

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pate in the global economy. The fastest-growing car market is in China. In India, car sales grew 38%, year over year, for July 2010. Millions of Chinese and Indians are purchasing their first automobile and, at the same time, increasing global demand for gasoline. Every successful, growing economy, ours included, is built upon the steady supply of affordable energy. Every day American consumers are competing with consumers from China, India, and Indonesia to set the price on that last drop of oil, that last lump of coal, that last vapor of natural gas.

What if there's a better way? What if we refuse to be hidebound to conventional thinking? What if we could maintain our lifestyles, our air conditioners, and our personal transportation? What if we could take back our economic and energy security from foreign states and chaotic markets? What if we could do all that while improving our environment? We can, and the companies involved in the new energy economy will be the leaders in this economic transformation. Higher energy prices alone could be the driver that moves these companies into the mainstream economy. However, there are a number of legislative or regulatory actions that could jump-start this sector and ignite rapid expansion and job creation.

As we all know, political divisions in the Senate have delayed efforts at comprehensive energy and climate legislation that puts a price on

carbon. However, as we've seen demonstrated at the state level, it is possible to establish standards for renewable energy and energy efficiency for residential and commercial buildings. The efforts of our forward-thinking states are laudable, but they have created a patchwork quilt of varying standards and regulations. Uniform national standards for renewable energy and energy efficiency for residential and commercial buildings would create a stable regulatory foundation that would provide the confidence needed for investors and businesses alike to make sizable, long-term investments.

According to a recent study by Georgia Tech and Duke University, the aggressive adoption of energy-efficiency programs would lower utility bills by \$1.6 billion and create 15,600 new jobs by 2020 in Tennessee alone. Imagine the economic impact if that were done nationwide. Renewable energy standards would be just as impactful, creating an additional 20,000 jobs in Tennessee and increasing real gross domestic product by \$900 million. These are real jobs, real economic benefits, real revenues. They will come. Putting a price tag on carbon and establishing national standards for renewable energy and commercial and residential building energy efficiency will speed their arrival.

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