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Sector Update: Looking for Power in the Alternative Energy Sector?

Examining potential bullish trading opportunities in the alternative energy sector
By Jocelynn Drake (jdrake@sir-inc.com)

The price of crude oil continues to skyrocket. The December futures contract has conquered the \$90-per-barrel level and appears to have set its sights on the \$100 mark. With the looming threat of more pain at the pumps as well as inflation concerns, investors have turned their focus to the alternative energy sector has a possible panacea to these growing woes.

The PowerShares WilderHill Clean Energy Portfolio ([PBW: sentiment, chart, options](#)) has performed well this year amid oil's rally. The exchange-traded fund ETF seeks investment results that correspond generally to the price and yield performance of the WilderHill Clean Energy Index, which is comprised of publicly traded companies whose businesses stand to benefit substantially from societal transition toward the use of cleaner energy and conservation. Some of its components include Echelon (ELON), Energy Conversion Devices (ENER), JA Solar Holdings (JASO), and First Solar (FLSR).

Technically speaking, the ETF has been in a strong uptrend, rising nearly 40% since the start of the year, as it has easily outperformed the S&P 500 Index (SPX), which has gained only 5.7%, and the Nasdaq Composite (COMP), which has added roughly 15%. The ETF has ramped higher along the steadfast support of its ascending 10-week and 20-week moving averages since late January, suffering only 1 weekly close below both of these trendlines. Furthermore, the security has recently broken above the 24 level, which had halted its rally attempts in May 2006. This level should now act as a layer of support for the ETF.

WEEKLY CHART OF PBW SINCE SEPTEMBER 2006
WITH 10-WEEK AND 20-WEEK MOVING AVERAGES



Despite the fund's impressive technical performance, we continue to see signs of pessimism growing toward the shares. The Schaeffer's put/call open interest ratio for PBW stands at 1.38, as put open interest among near-term options outnumbers call open interest. This reading is also higher than 82% of those taken during the past 52 weeks. In other words, short-term options speculators have been more bearishly aligned against the sector only 18% of the time during the past year.

Digging deeper into the sector, one stock that has put in a solid performance is SunPower ([SPWR: sentiment, chart, options](#)). The company makes solar cells and panels, used to generate electrical power.

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Another company worth keeping an eye on is Evergreen Solar ([ESLR: sentiment, chart, options](#)). Using its proprietary crystalline technology, called String Ribbon, the company

develops and manufactures solar power cells and panels. Applications for Evergreen's solar cells and systems include highway call boxes, microwave stations, street and billboard lighting, and off-grid rural electrification.

The shares of ESLR have gained nearly 59% since the start of 2007, easily outpacing the broad market. The equity has rebounded from its July lows and recently broke through resistance in the 10 region.

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