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Green Investor

DIGEST

Biosolids, Nitrogen Cycle Provide Limited Investment Opportunities

By Stephen Hoffmann
Water Investment Newsletter

The concern over global warming and climate change centers attention on the carbon and hydrologic cycles. With respect to the water cycle, it is not enough to say that climate change is exacerbating water scarcity problems. Increasing amounts of carbon dioxide in the atmosphere radically alters the composition of water vapor within the hydrologic cycle creating temporal and spatial changes in the distribution of water.

As biogeochemical cycles go, however, the relationship between the nitrogen and hydrologic cycles receives little attention outside of the negative impact of eutrophication caused by agricultural runoff and the discharge of wastewater. There is an equally important consideration that is of emerging investment interest.

Wherever collection and treatment of wastewater is practiced, an inevitable by-product is sewage sludge, or organic residuals. While the characteristics of biosolids residuals are quite variable, nitrogen can account for up to 17% of the nutrient composition. The acceptance of biosolids applications has been an uphill battle every since the Part 503 Regulations were enacted over fifteen years ago. Regardless, its potential within the workings of the nitrogen cycle remains a benefit

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Carbon ETF Market Has Room to Grow

By Don Dion
Don Dion's ETF Report

When President Barack Obama included a carbon cap-and-trade provision in his budget proposal, analysts and investors struggled with what to think and what to trade. Currently, two exchange-traded products are available to carbon investors: the **iPath Global Carbon ETN (GRN)** and the **AirShares EU Carbon Allowances Fund (ASO)**. While GRN and ASO offer different approaches and vehicles for carbon investors they are likely just the beginning of a carbon-ETF trend. The development of GRN and ASO is a good example of how the ETF market seizes upon new trends, such as green energy or scarce commodities, and launches products and indices quickly. The launch of the new S&P 500 Carbon Efficient Index represents another opportunity for carbon exchange-traded products to be created, as well as a greater desire to differentiate between the carbon-efficient funds available.

Carbon-efficient ETFs have gained more attention as the new administration sets forth its plan for carbon cap-and-trade, which is a system of emissions allowances (credits) allocated to companies that produce emissions during the course of business. Because different companies pollute at different rates, the number of carbon credits varies from company

to company. Assuming that the allocation is imperfect and that companies will change their needs over time, a cap-and-trade system will allow businesses to reallocate their carbon needs. Companies that pollute less can sell their credits to companies that need them more, and additional credits can be earned by companies taking initiatives to reduce pollution.

Barclays became the first to introduce a carbon-efficiency-themed product, in early 2008. GRN, which we first reported on in August, comprises exchange-traded notes that represent carbon emissions allowances. What complicates GRN, and every exchange-traded note, is that "issuer risk" accompanies the notes. The price of GRN could be affected by the credit rating of the issuing bank, Barclays – a concern that has become more acute in the last year as previously "impervious" banks slashed their value. ETNs have had some difficulty gaining traction in a dismal credit market, and GRN has proved to be little exception thus far. The three-month average daily trading volume for GRN is currently fewer than 2,000 shares per day.

Launched in mid-December, X-Shares added ASO, which is a pool of commodities that track a basket of exchange-traded futures contracts. Because these contracts are not physically deliverable and ASO track the pool of contracts,

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of developing investment interest.

Plants need at least seventeen elements to grow. Carbon, oxygen, and hydrogen are procured from the air and water and are deemed the “building blocks” for plant growth. The remaining elements are referred to as “nutrients” that plants generally obtain from the soil. Nitrogen is one of the most important plant nutrients. But the means by which plants obtain this needed from of the element within the nitrogen cycle is complicated. Chemically unreactive nitrogen gas is the atmosphere’s most abundant element (78% of the volume of the troposphere), yet it cannot be utilized in that form by plants or animals. Bacteriological conversion in the soil and water is required to convert the gas into compounds that can enter food webs as part of the nitrogen cycle. Biosolids are nutrient-rich organic materials that can augment the process. When treated and processed, these residuals can be recycled and applied as fertilizer to improve and maintain productive soils and enhance crop yields.

To accommodate the rising demand for food and dietary protein by an exponentially increasing world population, global food production will need to double on basically the same amount of land currently in production. The notion of sustainability begs the question of why the nutrients in the 8.2 million tons of biosolids generated per year in the United States are not more effectively utilized. The management of wastewater treatment by-products is a business that makes intuitive sense as a biocentric approach to recycling within the critically important nitrogen cycle. This is the logic despite an extremely challenging political and regulatory environment. And rightly so, as sewage sludge by definition is going to contain pollutants, including pathogenic microorganisms, heavy

metals, and any number of synthetic contaminants.

To make it clear, sewage sludge is defined as the residue generated in primary, secondary, or advanced wastewater treatment processes. Biosolids represent only the treated portion of the wastewater solids that meet strict federal and state regulations (the EPA, however, uses the terms interchangeably). In order for the biosolids segment to begin the process of achieving the investment potential that is believed to be significant, it is important that the research and treatment methodologies be properly advanced within the community of water administrators and professionals. This is precisely why the recently released “Targeted National Sewage Sludge Survey Report” (TNSSS, January 2009) is a crucial part of the process in understanding and appropriately utilizing a potentially valuable resource.

Section 405(d) of the Clean Water Act requires the EPA to identify and regulate toxic pollutants that may be present in biosolids at levels of concern for public health and the environment. The objective of the survey was to determine which substances or chemicals were present in the sewage sludge of 74 randomly selected publicly owned treatment works (POTWs) in 35 states. While national estimates of the concentrations of selected constituents were made, the report makes it clear that the occurrence information was the prime directive at this point not the concentrations. The EPA will, however, use the results to assess potential exposure to the contaminants. Of further note is the inclusion of pharmaceuticals and personal care products (PPCPs) in the survey. The TNSSS will provide the first national estimates of which pharmaceuticals, steroids and hormones may be present in the sewage sludge.

Municipalities decide on the

best management practices for biosolids that they generate, whether they are recycled as fertilizer, incinerated or buried in a landfill. The EPA is responsible for providing information, based on the best science, on the safe recycling and disposal of these biosolids. The results of the TNSSS provide valuable information in advancing effective regulation. All but one of the metals analyzed were found in virtually every sludge sample. Three of the pharmaceuticals, ciprofloxacin (an antibiotic), diphenhydramine (antihistamine, sleep aid), and triclocarban (in antibacterial soaps) were found in all samples. Of the 25 steroids and hormones, three steroids (i.e., campesterol, cholesterol, and coprostanol) were found in all samples. And all of the flame retardants except one were found in every sample. Again, as the EPA points out in the report, it is not appropriate to speculate on the significance of the result at this time. The point is that the TNSSS provides important input to the EPA’s efforts to evaluate biosolids thereby addressing the concerns that inhibit the use and application of this potentially valuable source within the nitrogen cycle. If this creates more stringent amendments to the Part 503 Regulations so be it. Whatever institutional changes are required in order to safely recycle the nitrogen in sewage sludge will be worth the nutrient value for future food production.

The majority of companies engaged in the fragmented biosolids business are smaller private companies that manufacture a specific line of treatment equipment (such as digesters or dewatering equipment) or provide outsourced services focused on a single aspect of biosolids handling (such as dredging or hauling). The acquisition of Synagro Technologies by The Carlyle Group in 2007 eliminated the largest listed pure biosolids play.

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Carbon ETF Market Has Room to Grow

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rather than notes, ASO cannot be considered a “true” ETF. ASO has a 0.85% management fee and is just shy of \$4 million in assets. With only 200,000 shares outstanding and an extremely light trading volume, ASO could be an opportunity for investors to watch and wait – to track price movements in the market without actually getting involved yet.

The promise of more carbon cap-and-trade products arrived with the advent of the S&P U.S. Carbon Efficient Index in March. The new index, which promises to be the first of a series, is set to measure the performance of large

U.S. companies with relatively low carbon emissions output. The index is rebalanced quarterly when index components are compared to their carbon emissions. The 100 equities with the highest scores, and whose aggregate exclusion does not reduce any individual sector weight of the S&P 500 by more than 50% are removed from the index.

While the latest carbon cap-and-trade headlines are educating a new wave of investors, global economic forces may cause the cap-and-trade market to contract in the short term. The current economic slowdown has forced emissions producers to focus on the near-term crisis. Global production slowdown could drop the value of the carbon

market by 32%, according to a recent report by Point Carbon. So while investor interest in trading carbon may be increasing, the declining value of the market could cause a short-term bubble.

By some estimates, the global carbon market is worth more than \$50 billion per year, and the new exchange-traded products are attempts by issuers to grab a slice of the pie. Not all similarly themed products are created equal, and some become more popular than others. Examples of similar products with vastly different trading volumes include **Pharmaceutical HOLDRS** (PPH) versus the **iShares Dow Jones Pharmaceuticals** (IHE) or **PowerShares FTSE RAFI Japan** (PJO) versus the **iShares MSCI Japan Index** (EWJ). While many factors impact the different trading interest in similarly themed funds, it is important for investors to remember simply that there is, indeed, a difference. While one methodology might seem preferable to another, factors such as volume and liquidity are important for investors when it actually comes down to the trading process.

As with any investment, prospective carbon investors should stay alert and attentive to the volume and development in the carbon ETF market. While GRN and ASO have yet to gain traction among the investing public, new, more viable ETFs could spring up from the advent of the S&P 500 Global Carbon Index. As with any narrowly themed exchange-trade products, however, investors should be wary of an influx of new funds to the market. If individual investors don't know where to start, they should look to the trading volume of current ETFs. More market participants in the carbon market will lead to tighter spreads, and the trading community is often quick to decide what works.

Editor's Note: Don Dion is editor of *Don Dion's ETF Report*, 25 Main St., P.O. Box 387, Williamstown, MA 01267, 1 year, 12 issues, \$99. www.fidelityadviser.com.

Biosolids...

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Synagro was instrumental in the early consolidation of the segment. The trend now is toward comprehensive biosolids management which is driven by the economics of privatization. The large global multi-business water participants dominate this segment. The public companies with notable biosolids activity include: **Eimco Water Technologies** (GLV, Inc., Toronto: GLV-A, GLV-B.TO), **Andritz AG** (Vienna: ANDR.VI), **Vivendi Environnement ADR** (NYSE:VE), **Suez Environnement** (Paris: SEV.PA), and **Siemens AG ADR** (NYSE:SI). An exception is **N-Viro International Corporation** (OTC BB: NVIC.OB). With a market cap of just \$9 million, the company's stock may not be suitable for many investors.

The emphasis on wastewater effluent quality will continue to result in an increase in the generation of biosolids at a time when finding acceptable locations for disposal is becoming more difficult.

The recycling of biosolids within the nitrogen cycle, which naturally fuels the production of food for the world's population, represents an enormous opportunity to move toward ecological sustainability.

There are clearly challenges however. As a telling example, despite the obvious organic nitrogen composition of biosolids, the USDA has currently excluded the use of biosolids in “organic” food production.

There is no doubt that the elimination of pathogens and harmful pollutants must be achieved before widespread agricultural application is prudent.

But the assumption is that crop application of biosolids is safe when practiced in accordance with federal and state guidelines and regulations.

And to further that assurance the EPA is continuing its purpose in providing information based upon sound science to all stakeholders in the management of water and wastewater treatment residuals.

It is clear that the mandate on sludge reuse and management is a priority in the EPA's regulatory scheme. Spurred both by regulation and technological advances, the safe and cost-effective treatment, disposition and management of biosolids is a business with significant growth potential that should be monitored by water investors.

Editor's Note: Stephen Hoffmann is a contributing editor to *Water Investment Newsletter*, a newsletter on water stocks and investments, 230 Main St., Halstead, KS 67056. Monthly, 1 year, E-subscription, \$197. Print edition, \$247. www.uswaternews.com.

Five Ways to Help Save the Planet in 30 Minutes or Less

Invest half an hour to protect the environment by changing how you live each day

By Larry West
About.com

You may not be able to reduce global warming, end pollution and save endangered species single-handedly, but by choosing to live an earth-friendly lifestyle you can do a lot every day to help achieve those goals.

And by making wise choices about how you live, and the amount of energy and natural resources you consume, you send a clear message to businesses, politicians and government agencies that value you as a customer, constituent and citizen.

Here are five simple things you can do – in 30 minutes or less – to help protect the environment and save Planet Earth.

1. Drive Less, Drive Smart. Every time you leave your car at home you reduce air pollution, lower, improve your health and save money.

Walk or ride a bicycle for short trips, or take public transportation for longer ones. In 30 minutes, most people can easily walk a mile or more, and you can cover even more ground on a bicycle, bus, subway or commuter train. Research has shown that people who use public transportation are healthier than those who don't. Families that use public transportation can save enough money annually to cover their food costs for the year.

When you do drive, take the few minutes needed to make sure your engine is well maintained and your tires properly inflated.

2. Eat Your Vegetables. Eating less meat and more fruits, grains and vegetables can help the environment more than you may realize. Eating meat, eggs and dairy products contributes heavily to global warming, because raising animals for food produces many more greenhouse gas emissions than growing plants. A 2006 report by the University of Chicago found that adopting a vegan diet does more to reduce global warming than switching to a hybrid car.

Raising animals for food also uses enormous amounts of land, water, grain and fuel. Every year in the United States alone, 80 percent of all agricultural land, half of all water resources, 70 percent of all grain, and one-third of all fossil fuels are used to raise animals for food.

Making a salad doesn't take any more time than cooking a hamburger and it's better for you – and for the environment.

3. Switch to Reusable Shopping Bags. Producing plastic bags uses a lot of natural resources, and most end up as litter that fouls landscapes, clogs waterways, and kills thousands of marine mammals

that mistake the ubiquitous bags for food. Worldwide, up to a trillion plastic bags are used and discarded every year – more than a million per minute. The count for paper bags is lower, but the cost in natural resources is still unacceptably high – especially when there is a better alternative.

Reusable shopping bags, made of materials that don't harm the environment during production and don't need to be discarded after each use, reduce pollution and save resources that could be put to better uses than making plastic and paper bags. Reusable bags are convenient and come in a variety of sizes and styles. Some reusable bags can even be rolled or folded small enough to fit into a purse or pocket.

4. Change Your Light Bulbs. Compact fluorescent light bulbs and light-emitting diodes (LEDs) are more energy efficient and less expensive to use than the traditional incandescent bulbs invented by Thomas Edison. For example, compact fluorescent light bulbs use at least two-thirds less energy than standard incandescent bulbs to provide the same amount of light, and they last up to 10 times longer. Compact fluorescent light bulbs also generate 70 percent less heat, so they are safer to operate and can reduce energy costs associated with cooling homes and offices.

According to the Union of Concerned Scientists, if every U.S. household replaced just one regular incandescent light bulb with a compact fluorescent light bulb, it would prevent 90 billion pounds of greenhouse gas emissions from power plants, the equivalent of taking 7.5 million cars off the road. On top of that, for every incandescent bulb you replace with an approved compact fluorescent light bulb, you will save consumers \$30 in energy costs over the life of the bulb.

5. Pay Your Bills Online. Many banks, utilities and other businesses now offer their customers the option of paying bills online, eliminating the need to write and mail paper checks or to keep paper records. By paying your bills online you can save time and money, lower the administrative costs of companies with which you do business, and reduce global warming by helping to prevent deforestation.

Signing up for online bill paying is easy and doesn't take much time. You can either choose to have certain bills paid automatically each month or elect to review and pay each bill yourself. Either way, you will receive outstanding returns on your small investment of time.

Editor's Note: Larry West is a professional writer and editor who has written many articles about environmental issues for leading newspapers, magazines and online publications. He has been a guide at About.com since 2004. During his 20-year career as a newspaper journalist, Larry was part of an investigative reporting team whose work was twice nominated for the Pulitzer Prize and received the Meeman Award for national environmental reporting from the Scripps Howard Foundation.

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Steven Halpern's THESTOCKADVISORS.COM

Each day, editor Steven Halpern features timely and insightful commentary, market outlooks and specific stock and fund recommendations from the nation's top newsletter advisors on his unique website TheStockAdvisors.com. Here are a few recent postings.

Four favorite water stocks

"The worst crisis of all time, in my view, is the critical global shortage of fresh water," says **Larry Edelson**. In *Money & Markets*, www.moneyandmarkets.com, the resource expert offers four water sector plays.

"The world's water crisis is now getting worse by the day. And the global financial and credit crisis is merely one reason why.

"Another is the ongoing modernization of major parts of the world, which is increasing demand for water, while at the same time polluting it.

"Yet another is major droughts around the world, including in our own back yard, where 60% of the U.S. is officially experiencing a drought.

"New technologies and techniques for better water supply management and improved conservation on the demand side could potentially avert a worldwide disaster.

"And as a long-term investment, water is one of my favorites. For both its tremendous social cause as well as its profit potential.

"The clamor for solutions and the companies that provide them could propel overnight the relative unknowns of the water industry to legendary investment status.

"**Calgon Carbon** (NYSE: CCC) provides products and services to purify water and air. It manufactures granular activated carbon for removing organic compounds from water, air, and other liquids and gases.

"Calgon is a solid, \$792 million company with good fundamentals ... a respected brand name ... and a moderate forward P/E around 20.87.

"**Aqua America** (NYSE: WTR) provides water and waste-water systems to nearly 3 million customers and on the move, acquiring over 100 smaller companies in recent years. Current revenues are about \$626M, and growing.

"**Pentair Inc.** (NYSE: PNR). A manufacturer and distributor of fluid-handling systems and industrial products like waste-water pumps.

"Expanding in China, which is suffering through the worst water crisis on the planet. Trading now for less than 10 times earnings, Pentair is a great long-term play.

"**Watts Water Technologies** (NYSE: WTS), one of my favorites, Watts is a major leader in the manufacturing of valve and flow-control products.

"Watts has doubled its business in the past five

years, mainly through acquisitions and via expansion overseas, where more than 30 percent of its business now comes from Europe and China."

Fuel Tech: Reducing emissions

Pollution control firm, **Fuel Tech** (Nasdaq: FTEK), whose technology reduces NOx emissions, is a recent feature from small cap expert **Jim Oberweis**, Jr. in *The Oberweis Report*, www.oberweis.net.

"The company provides a suite of advanced technologies for boiler optimization, efficiency improvement and air pollution reduction and control solutions to utility and industrial customers worldwide.

"Fuel Tech markets its nitrogen oxide (NOx) reduction and FUEL CHEM processes. The company's NOx reduction technology reduces NOx emissions in flue gas from boilers, incinerators, furnaces and other stationary combustion sources.

"The U.S. air pollution control market is the primary driver in Fuel Tech's NOx reduction technology segment. This market is dependent on air pollution regulations and their continued enforcement. Fuel Tech also sells NOx control systems outside the U.S., specifically in Europe and in China.

"In the company's latest reported third quarter, sales increased approximately 55% to \$23.7 million from \$15.3 million in the third quarter of last year. Fuel Tech, Inc. reported earnings per share of \$.09 in the latest reported third quarter versus \$.04 in the same quarter of last year.

"The company experienced an unexpected hiccup in July 2008, when the D.C. Circuit Court of Appeals struck down the Clean Air Interstate Rule (CAIR), a significant legislative catalyst that led utilities to buy pollution control equipment.

"Business came to a screeching halt. However, on December 23rd, 2008, the U.S. Court of Appeals for D.C. Circuit Court reversed the decision, temporarily reinstating CAIR but also asking the EPA to correct the rules flaws.

"Significant regulatory uncertainty remains, but it sounds like a revised CAIR may be even more stringent, not less. Clients of Oberweis Asset Management own approximately 203,000 shares. These shares may be appropriate for risk oriented investors."

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THE KONLIN LETTER

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Boots & Coots provides emergency response services

Konrad Kuhn: "Lack of poor maintenance of wellheads will eventually lead to well control events and/or loss of life. **Boots & Coots International Well Control, Inc.** (NYSE: WEL) provides a suite of integrated pressure control services to onshore and offshore oil and gas exploration companies around the world. The Well Intervention segment consists of services that are designed to enhance production for oil and gas operators and reduce the number and severity of critical well events such as well fires, blowouts and other losses of control at the well. This segment includes services performed by hydraulic workover and snubbing units (helps unlock tight gas formations in the prolific shale regions of the U.S.) and the rental of pressure control tools that are used to enhance production at the wells. The scope of these services also includes prevention services such as training, contingency planning, well plan reviews, audits, inspection services and engineering services offered through their Safeguard risk management programs. The Response segment consists of personnel, equipment and services provided during an emergency response such as a critical well event, or a hazardous material response.

WEL has a long history in the oil and gas industry and is widely recognized for its emergency response services. Their well control specialists are the most experienced and highly capable in the world. Built on the heritage of well firefighters Red Adair, Boots Hansen and Coots Matthews, their well control expertise allows them to respond quickly and masterfully to a well event, whether it is a live well emergency – blowout or oil or gas fire – or a non-critical operational problem. Its customers include major oil and independent and foreign national oil and gas producers, as well as other oil field service companies.

Revenues for FY'08 surged 99% to \$209.2 mil., with net income leaping 177%, or .28 per diluted share vs. .11 for the prior year. Record results for the year are a reflection of WEL's strategy of focusing on pressure control and continuing to build their portfolio of products, services and talent. In a tight credit market, WEL obtaining a new \$54 mil. credit facility shows confidence of what their banks think the astute

management team can accomplish. The stock appears to be on the verge of breaking out of its base formation for a 1st objective of 2 ½-3 (short interest ratio 3.0) as WEL offers the industry the world's most experienced well-controlled company. Of the 77,083,199 shares outstanding, 51% are held by institutions.

WEL has expanded its safeguard services in Africa through a new contract worth \$58 mil. Also, it recently acquired John Wright Company (JWC) that provides a suite of relief well drilling and risk management services to the oil and gas industry worldwide. The strategic acquisition enhances WEL's safeguard service offerings giving them a competitive edge for growth. The Ultimate target is 4 1/2-5."

NATE'S NOTES

P.O. Box Healdsburg, CA 95448.
Monthly, 1 year, \$289. www.NatesNotes.com.

First Solar rated Strong Buy

Nate Pile: "The stock still needs to clear \$160 (or so) on good volume for our current "consolidation phase" assessment to be raised to "uptrend," but from where I sit, it appears all the right pieces are continuing to fall into place for **First Solar** (FSLR), and thus I believe the odds do favor such an upgrade sometime in the next few months (I've been wrong before though, so don't bet the farm just yet!) Not only are analysts once again starting to raise estimates and upgrade the stock after the tumble it took, "tough times" are making it difficult for some of the company's competitors to keep up in the marketplace. For those of you who have not yet started a position, FSLR is considered a strong buy under \$135 and a buy under \$170."

THE CONTRARY INVESTOR

309 South Willard St., Burlington VT 05401.
Monthly, 1 year, \$125.

Energy Recovery Inc. benefits from demand for sea water desalination

Leonard Davenport: "**Energy Recovery Inc.** (Nasdaq: ERII; \$6.31, www.energyrecovery.com) a leading global developer and manufacturer of highly efficient energy recovery devices utilized in the rapidly growing water desalination industry. The company operates primarily in the sea water reverse osmosis, or SWRO, segment of the industry. SWRO uses pressure to drive salt water through filtering membranes to produce fresh water. Energy recovery devices have increased the cost-competitiveness of SWRO desalination compared to other means of fresh water supply and has enabled the ongoing rapid growth of the SWRO segment of the desalination industry worldwide. It's primary product, the PX

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Pressure Exchanger, or PX, helps optimize the energy intensive SWRO process by recapturing and recycling up to 98% of the energy in the high pressure reject stream, thereby reducing energy consumption by an estimated 60% as compared to a plant without any energy recovery devices.

Industry

The demand for fresh water continues to escalate, driven by the need for drinking water to satisfy the world's growing population, changing weather patterns, and increasing need for water for agriculture and industry and the concentration of populations in urban areas that lack sufficient fresh water resources. The United Nations Population Fund expects the global consumption of water to double every 20 years. A study conducted by the International Water Management Institute projects that by 2025, 33% of the population of the developing world will face severe water shortages. The uneven geographic distribution of fresh water supplies compounds this problem. Even in water-rich nations, population growth, environmental regulation and irrigation needs are placing constraints on existing water resources.

The United Nations Environmental Program estimates that by 2010, 80% of the world's population will live within 100 kilometers of a sea coast. With the growth of population centers along coastal areas and improvements in technology, desalination, once a luxury of oil-rich Middle Eastern countries and large-scale resorts, is rapidly becoming an economically viable alternative in many regions where traditional fresh water sources are becoming increasingly stressed. According to the February/Mach 2008 issue of *International Desalination & Water Reuse Quarterly*, there are approximately 14,000 desalination plants installed worldwide.

Desalination is the process of removing salt and other minerals and solids from water. The process is most commonly used to derive fresh water from sea water or brackish water. The higher the salinity of the source water, the greater the energy required in the desalination process. The company operates primarily in the sea water reverse osmosis, or SWRO, sector of the sea water desalination market.

Competition

The market for energy recovery devices in desalination plants is competitive and continually evolving. The PX device competes with slow cycle isobarics, Pelton wheels and hydraulic turbochargers. The three primary competitors are Calder AG, Fluid Equipment Development Co. and Pump Engineering Inc. Competition is expected to persist and intensify as the desalination market opportunity grows.

Advantages

Unique and efficient product. ERII manufactures the only commercially available rotary isobaric energy recovery device, which is more effective at recovering and recycling energy than any other commercially available energy recovery device. The PX device

incorporates highly engineered corrosion resistant ceramic parts and a modular design that minimizes product maintenance with only one moving part.

Leading position in a rapidly growing industry. The combination of decreasing fresh water supplies, increasing fresh water demand and declining SWRO desalination costs is driving growth in the SWRO desalination industry. SWRO is the fastest growing segment of the desalination market, and ERII is the largest global supplier of energy recovery devices for SWRO plants.

High barriers to entry. Historically, there has been a slow adoption rate for new technologies in the desalination industry. ERII has spent the last 11 years penetrating the market. Over this period, the PX device has been increasingly adopted into the standard plant specifications of many of the leading SWRO desalination plant designers. ERII has five U.S. and nine international counterpart patents covering specific design features of the PX device.

Economic Stimulus Plan

The recently passed American Recovery and Reinvestment Act includes \$19 billion for water Projects, Spending will encompass environmentally-based projects such as flood control, sewage and water treatment systems.

Conclusion

ERII is well positioned to benefit from the increasing demand for sea water desalination. The company's products are well proven and protected by patents. The Stimulus Plan should further enhance the domestic opportunities available to ERII."

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Who's Afraid of Cap-and-Trade?

By Roger Conrad
Utility Forecaster

Carbon regulation is by far the US power industry's most important environmental issue since the 1990 Clean Air Act. Back then, the first President Bush set limits on sulphur oxide (SOX) and nitrogen oxide (NOX) emissions causing acid rain by creating a "cap-and-trade" system that allowed companies to gain time for adjustments by buying emissions "credits."

Cap-and-trade's success cutting acid rain at a relatively low cost has made it the top choice for controlling carbon, both for industry and regulators. The devil, however, is in the details.

President Obama has fired the first salvo, incorporating an auction for all carbon-emission credits in his fiscal 2010 budget. That proposal induced **Duke Energy** (NYSE: DUK) CEO Jim Rogers, an Obama backer in the 2008 election, to warn it could boost US utility rates as much as 40 percent unless adjustments are made to soften the blow. And many in Congress are gearing up for a battle, where regional loyalties may count more than party.

Like all things Washington, we likely won't know the battle's outcome for some months. But no matter how it shakes out, cap-and-trade will strain some companies, even as it unlocks unique opportunities for others, thanks to a flood of government money to fix the problem. Below, I look at both sides.

Shaping the Details

It's taken decades of scientific debate to produce consensus that carbon dioxide (CO₂) emissions cause global climate change. One fact, however, has never been in dispute: Burning coal is a primary source of CO₂.

As "Kings of Carbon" shows, the US and China are by far the world's biggest producers of CO₂. And if current trends hold, the pair will produce nearly half the global

total by 2030.

The Energy Information Administration reports 81 percent of US utility CO₂ emissions in 2005 – or nearly a third of the country's overall output – were from coal fired power plants. That makes cutting them the single biggest potential way to reduce greenhouse gases.

Using data from the US Environmental Protection Agency, the 50 largest power plant emitters of CO₂ in the US emit roughly 764 million tons a year, or nearly half the country's total. As a result, these facilities are certain to draw the most government scrutiny going forward.

The table "The Emitters" lists the utilities that own these plants along with the number they operate. The table "Burning Coal" identifies 15 utilities that have historically produced at least 70 percent of their electricity from coal. Utilities that appear on both lists face the biggest expenditures to comply with CO₂ regulation – and the greatest financial pressure to recover the cost in rates.

A company with a high burden may actually see its earnings rise from the effort, provided regulators allow it to pass through the costs of needed investment into its rate base. Conversely, a company with a relatively low burden could pay a heavy price, if state officials prove stingier.

Companies' eventual cap-and-trade risk is also certain to be shaped by politics. The venerable Tax Foundation – a non-profit, non-partisan organization monitoring tax policy since 1937 – forecasts an additional annual levy of \$1,218 to utility bills per household.

The president's budget proposes a means-tested rebate to help lower-income families. That, however, doesn't address the stark regional differences. For example, West Virginia emits more than six times the number of tons of carbon per capita as relatively affluent Rhode Island. Consequently, cap-and-trade will make it six times less

Continued on next page

Burning Coal

Investor-owned US power companies with greatest percentage of output/sales historically coming from coal-fired power plants.

Company

Allegheny Energy
American Electric Power
Ameren
CMS Energy
DPL Energy
Great Plains Energy
Mirant Corp
NiSource
NRG Energy
OG&E
Otter Tail Power
Reliant Energy
Southern Company
TECO Energy
Vectren

Source: Utility Forecaster

The Emitters

Number of Plants Owned Ranking Among Top 50 US Carbon Dioxide Emitters

Company	Plants
Southern Company	6
American Electric Power	5
TXU US Holdings	4
Tennessee Valley Authority	3
Berkshire Hathaway	2
DPL	2
Duke Energy	2
Entergy	2
First Energy	2
NRG Energy	2
Progress Energy	2
PNM Resources	2
Reliant Energy	2
14 Companies	1

Source: Public Citizen, Utility Forecaster

Continued from previous page

competitive on power costs. Other losers include heavily industrial Illinois, Indiana, Michigan, Ohio and Pennsylvania, all of which have already been hit hard by the recession.

Forecasting anything in Washington is always problematic. But odds are growing that successful cap-and-trade legislation will have to include many of the provisions sought by industry. That includes a partial rather than full auction of emission credits. One reason: A group of 15 "Blue Dog" Democrats in the Senate and 50 in the House are now demanding debate, and passage on anything without them looks impossible.

Major owners of coal plants will still have to cut CO2 dramatically in coming years, just as they have SOX, NOX and mercury in recent years. But changes greatly increase the odds are they'll get the rates to pay for it, and that customers won't be on the receiving end of violent rate shocks.

Who's At Risk

Southern Company (NYSE: SO) and **American Electric Power** (NYSE: AEP) are the nation's largest producers of CO2. Both, however, are far less vulnerable to cap-and-trade than it first appears.

Southern, for example, enjoys supportive regulation. Last month, Georgia regulators approved its plan to build two new nuclear reactors at its Vogtle site with a total capacity of 2,200 megawatts. They also agreed to allow the company to begin immediately recovering its \$6.4 billion in costs.

AEP, the biggest US producer from coal, enjoys automatic recovery of environmental costs in most of its states. Wholesale profits could be affected, as coal-fired power costs rise relative to gas-fired stations, and the balance sheet is only mid-range quality. But the stock is cheap at just 8.2 times low-ball 2009 earnings estimates, and the company is investing heavily in renewable energy.

Most important, both companies are weathering the recession,

meeting financing needs easily and covering dividends by a wide margin. But with almost the same dividend yield, Southern is a better bet on the long-term CO2 issue. Buy Southern Company up to 35. Hold American Electric Power.

Three other power producers are vulnerable both for reliance on coal and ownership of likely targeted plants. **DPL** (NYSE: DPL) cut the upper end of its projected 2009 earnings range on economic weakness. The company has a "positive" outlook from all three ratings services and wide dividend coverage. But with some cap and trade risk, DPL is a hold.

NRG Energy (NYSE: NRG) is fighting **Exelon's** (NYSE: EXC) takeover bid (0.485 shares of EXC per share) tooth and claw. But given the advantages of scale and NRG's CO2 exposure, a yes vote is still best for shareholders. NRG Energy is a buy up to 20. Exelon's size, financial power and nuclear focus will easily absorb NRG's CO2 risks. Buy Exelon up to 60.

Finally, **Reliant Energy** (NYSE: RRI) sales of its unregulated Texas retail operations to NRG dramatically reduces once-imposing collateral needs. Most output is hedged this year, but the company is losing money and CO2 liabilities loom. Sell Reliant Energy.

As for other listed companies, carbon regulation exposure is manageable, even if Obama's cap-and-trade plan isn't modified. Two exceptions are **PNM Resources** (NYSE: PNM) and **Otter Tail** (Nasdaq: OTTR). PNM is struggling with a chronically weak balance sheet while the recession is crippling. Otter Tail's unregulated businesses. Sell PNM Resources and Otter Tail.

Clean is Green

The more expensive regulating carbon is the more valuable emissions-reducing technology will become. One little-appreciated fact about the Obama administration is the large number of key operatives from Illinois, a major coal burning and producing state. The most powerful: White House Chief of Staff Rahm Emmanuel.

Emmanuel planted \$3.4 billion into the Obama stimulus bill for clean coal research. Now he's apparently resurrected the FutureGen project, an alliance between AEP, Southern Company and coal producer **Peabody Energy** (NYSE: BTU) to build a commercial-scale coal plant with carbon-capture technology.

Duke Energy's Edwardsport project is another attempt to do the same thing, funded by the state of Indiana. Meanwhile, AEP is testing a process involving ammonia to remove CO2 from emissions from older coal plants at relatively low cost.

No matter who wins the race to develop carbon capture, all coal-burning utilities will benefit from lower costs. And stored carbon has a wide range of uses, from boosting production at aging oil wells to reprocessing into liquid fuel. For now, my favorite way to bet is Duke Energy. Duke has all the financial power it needs, as it demonstrated last month by selling 30-year bonds at a spread of just 270 basis points to Treasuries, and earnings are solid. Buy Duke Energy up to 20.

In the February issue, I featured companies developing renewable energy and smart grid technology. All are still buys, particularly **Growth Spotlight FPL Group** (NYSE: FPL), America's leading producer of both wind and solar power.

A handful of emerging giants will continue to build dominance over the sector, as smaller rivals are squeezed out by tight credit conditions and lower energy prices. My top picks in the equipment/engineering camp remain **SunPower** (Nasdaq: SPWRA) and **Vestas Wind Systems** (OTC: VWSYF).

Both has since slipped, as global economic weakness nipped sales. But they continue to win orders and have no financing worries. SunPower is a buy up to 30, Vestas Wind Systems up to 40.

President Obama's budget eliminates funding for Yucca Mountain, Nevada. As a permanent repository of nuclear

Continued on page 12

The World's Largest Gathering of Free Minds FreedomFest 2009

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And Now for Something Edgy: John Galt invites you....

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Conservatives (CPAC) meet in Washington DC, but we hate Washington and all it stands for. Doug Casey calls it "death star." We prefer Las Vegas, the world's most libertarian city.

Every year we attract a growing number of free-market speakers and authors. This year we've confirmed Larry Kudlow, Charles Murray, Steve Forbes, John Mackey, David Boaz, Brian Doherty, Doug Casey, Michael Shermer, Stephen Cox, David Friedman, Lawrence Reed, Floyd Brown, Dan Mitchell, Tom Palmer, Al Regnery, Bob Tyrrell, Christopher Ruddy, and Matt Welch.



Larry Kudlow



Matt Welch



Steve Forbes

Why Steve Forbes and John Mackey Love FreedomFest

My favorite story is **Steve Forbes**. Last year he was going to fly in, give a speech, sign some books, and fly back to New York. But when he saw the lineup of speakers, he decided to stay all 3 days. Attendees were amazed to find Mr. Forbes walking in the exhibit hall or sitting next to them in the workshops. And he's coming back this year -- all 3 days.

Libertarian CEO **John Mackey** also makes a point every year to take time from his busy schedule running Whole Foods Market to come for the entire conference. "I love FreedomFest," he told me. "Wonderfully interesting people and non-stop intellectual stimulation. I'm really looking forward to FreedomFest 2009."

Last year 1,427 individuals came from all 50 states and around the world (as far away as New Zealand), a 42% increase. This year we expect even a bigger crowd.

Representatives of all the top free-market think tanks and organizations make it a point to be there, including **Reason, Cato, Heritage, Fraser, FEE, and Hillsdale College**. **Liberty Editors Conference** holds their annual conference there. And **Laissez Faire Books** is our official bookstore. (C-SPAN films us every year.)

GREAT NEWS! Campaign for Liberty will be joining us: Meet **Congressman Ron Paul, Judge Andrew Napolitano, and Tom Woods**.



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Think of it as a Renaissance weekend where, once a year, we come together to debate everything from philosophy, history, science/technology, economics to geo-politics, healthy living, and money.

As Jerry Cameron of St. Augustine, Florida, says, "FreedomFest was like having access to all the greatest intellectual food in the world and you just couldn't eat fast enough to sample it all. I can't remember an event in my life that was more gratifying than this convention."

"Clear and Present Danger"

At every FreedomFest, we also hold our **World Economic Summit**, and this year commands your attention. Our theme is "Clear and Present Danger," with keynote speakers **Larry Kudlow, Steve Moore, Charles Gasparino, Tyler Cowen, and John Fund**, and an "All Star Forecasting Panel," with financial gurus (**Peter Schiff, Alex Green, Rick Rule, Fred Foldvary, Bert Dohmen**) who warned attendees in the past two years about the growing financial crisis, and what they are predicting now.

The theme for this year's event is "**Imagine the Possibilities**." This year we are planning 9 debates, including: "US Foreign Policy--isolationist or imperialist?.... Should hard drugs be legalized?... Keynes, Hayek, Friedman: Who Best to Solve the Financial Crisis?" See **John Mackey** take on the **Objectivists** in "**Randian vs. Conscious Capitalism**"....**Prof. Richard Vedder** take on **Al Norman** on "Wal-Mart, Good or Bad?"

Plus we're organizing a science fiction/fantasy mini-festival, highlighting the works of Ray Bradbury, Robert Heinlein, and Ayn Rand.... **Prof. Steve Watts** on juvenal and adult fantasy in post-war America (Walt Disney's Fantasyland vs. Hugh Hefner's Playboy).... Sacred text project (Rabbis, priests, Sikhs and other true believers talking about the Bible, Koran, Tao Te Ching, etc.).... Professors showing how to write a classic.... **Prof. Art Benjamin** on the magic and mystery of mathematics.... and two Canadians tell us "Why 60 Million Frenchmen Can't be Wrong!"

Grand Finale: We Save the Best for Last

Attendees always love our grand finale, the Saturday night banquet. Last year's George Bush impersonator brought the house down—one attendee told us, "I haven't laughed this hard in ten years." This year, enjoy another induction ceremony of the **Free Market Hall of Fame**, an unforgettable surprise music group (you can "imagine" who it is), and a "Dance with the Stars" contest!

To paraphrase Ben Franklin, let's all hang out together in Vegas, or surely we shall all hang separately. Fly there, drive there, bike there, be there!

Yours for liberty, AEIOU
Mark Skousen, *Producer*

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GREEN INVESTING

THE CONTRARY INVESTOR

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North America is next big market for solar power

Alex Seagle: “German solar company Schott recently cut the ribbon on a \$100 million factory in Albuquerque, NM., that will produce solar panels as well as receivers for solar through power plants. Meanwhile, Chinese solar giant Suntech said that it will build a solar cell manufacturing plant in the United States.

The move to North America comes as the European market softens as governments subsidies ebb and solar panel prices fall. Despite the severe U.S. recession, Schott and Suntech are betting that the solar market will boom when the economy recovers and they’ll gain a competitive edge by manufacturing near customers.

“We think North America in general is the next big market for solar power,” said Gerald Fine, CEO of Schott Solar’s North American operations. “Especially in the case of concentrated solar receivers you want to be close to your customers and provide great customer service and low shipping costs.”

Solar Pure Plays:

- SunPower Corporation (Nasdaq: SPWR)
- First Solar Inc. (Nasdaq; FSLR)
- Evergreen Solar (Nasdaq: ESLR)
- SunTech Power Holdings (NYSE: STP)
- Trina Solar (NYSE: TSL)
- Solarfun Power Holdings (Nasdaq: SOLF)
- Canadian Solar Inc. (Nadaq: CSIQ)
- JA Solar Holdings (Nasdaq: JASO)
- China Sunenergy (Nasdaq: CSUN)
- LDK Solar (NYSE: LDK)
- ReneSola Ltd. (NYSE: SOL).”

And it doesn’t hurt to be generating green jobs as well. The 200,000-square foot New Mexico factory employs 350 people. The plant was built too late to take advantage of the Obama stimulus package’s 30 percent tax credit for renewable energy manufacturing. But Fine said the tax credit will encourage Schott’s plans to eventually expand the facility to 800,000 square feet with a workforce of 1,500.

Fine declined to discuss specific customers for the receivers but there are numerous solar trough power plants being planned for the Southwest, including Abengoa Solar’s Solana project in Arizona and utility **FPL’s** (NYSE: FPL) Beacon 250-megawatt solar

in California.

“We feel pretty comfortable with our order books in both product lines for the foreseeable future,” said Fine. “If you look at the publicly announced plans to try to put a reasonable probability of them being completed, there’s in excess of two gigawatts of power plants out there.”

Schott will have the North American receiver market to itself but will face some stiff competition when it comes to making photovoltaic modules. Thin-film solar cell maker **First Solar** (Nasdaq: FSLR) is headquartered in neighboring Arizona and claims the lowest cost of manufacturing. Last year, German solar cell maker SolarWood opened a factory outside Portland, OR., while Silicon Valley’s **SunPower** (Nasdaq: SPWRA) makes some of the most efficient solar cells – albeit overseas.

And now **China’s Suntech** (NYSE: STP) is moving into the U.S. manufacturing market. The company recently said it is looking at several states as potential sites for a factory and will make a decision on where to locate the facility within six months.

“We believe in the outstanding long-term prospects of the solar energy market in the United States, and we will continue to invest in our ability to meet a substantial portion of that potential growth through in-market manufacturing,” Suntech CEO Zhengrong Shi said in a statement.

Solar company stocks have been absolutely crushed over the past year or so. Last August, Suntech was trading around \$50 per share, and is now in the \$15 range. It is difficult to predict when photovoltaic technology (photovoltaic, or “PV” is the technical term for turning light into power) will become a viable alternative in power generation, but the pace seems to be ever-quickening. Today’s solar cells are simply not efficient enough and are currently too expensive to manufacture for large-scale electricity generation. However, the cost of these cells is likely to decrease in the future by using thinner wafers and devices with higher conversion efficiency. It is here where an exciting development known as nanotechnology is expected to play an important role in the longer run in order to further lower the PV cost.

Nanotechnologies are regarded as key technologies for innovations and technological progress in almost all sectors of the economy. Nanotechnologies exhibit the unique potential for technological breakthroughs in the energy sector, thus making substantial contributions to sustainable energy supply. In recent years, nanotechnology researchers have been achieving astonishing results in many fields of medicine and electronics; from microscopic sensors to transistors constantly decreasing in size, industry is pushing to innovate and find always new, cost-effective solutions. One of the most promising and exciting areas of progress has been seen in the field of solar cell development.

The range of possible nanoapplications in the
Continued on page 12

Clean Energy Investments Starting to Rise in 2Q 2009

New investment in the global clean energy sector in the second quarter of 2009 has already surpassed investments made in the first quarter by a third, according to new research by *New Energy Finance*. Clean energy investments in the first quarter of 2009 were down 44 percent from the fourth quarter of 2008 and down 53 percent from the investment peak in the first quarter of 2008.

New Energy Finance expects clean energy investments for 2009 to end up in the range of \$95 billion to \$115 billion, a drop of 26 to 39 percent from last year.

However, a recent report, "*Green Investment: Towards a Low-Carbon Energy Infrastructure*," published earlier this year by *New Energy Finance and World Economic Forum*, shows that annual investments in clean energy need to reach \$500 billion by 2020 to ensure that global carbon emissions peak before that date.

The report identifies eight emerging, large-scale clean energy sectors that are expected to significantly contribute to a clean energy infrastructure: onshore wind, offshore wind, solar photovoltaic, solar thermal electricity generation, municipal solar waste-to-energy, sugar-based ethanol, cellulosic and next-generation biofuels, and geothermal power.

New Energy Finance's first full-year forecast for 2009 shows that the financial crisis and recession have negatively impacted the sector. The good news, says the company, is that investments in clean energy companies in the second quarter have rallied with more than \$2 billion of completed secondary issues for companies such as Vestas, SunPower, Q-Cells, Evergreen Solar and Suntech Power.

New Energy Finance says green stimulus money from government programs will help, but the group estimates that more than two-thirds of this money will be spent in 2010 and 2011, with 15 percent or less or about \$28 billion this year. Yet, the World Economic Forum warns that at least \$515 billion annually needs to be invested in clean energy between now and 2030 to keep temperatures from rising by two degrees globally.

Jobs in the clean energy economy grew at a national rate of 9.1 percent, while traditional jobs grew by only 3.7 percent between 1998 and 2007, according to a new study by The Pew Charitable Trusts. The report also finds that this sector is poised to expand significantly, driven by increasing consumer demand, venture capital infusions, and federal and state policy reforms.

Venture capital investment in clean technology crossed the \$1 billion threshold in 2005 and continued to grow substantially, reaching a total of about \$12.6 billion by the end of 2008, according to the Pew report.

– Source: www.environmentalleader.com

GREEN INVESTING

Continued from page 11

energy sector ranges from gradual short and medium-term improvements for a more efficient use of conventional and renewable energy sources, as well as ground-breaking long-term approaches for energy recovery and utilization.

Presently, the climate of economic difficulty facing the world is resulting in a rising demand for going green. An attempt is being made to stimulate economies by an expansion of government spending in the areas of sustainability, energy conservation and renewable energy. However the credit crunch and wild swings in the price of oil could get in the way of these nanotech solutions being aggressively pursued over the short term.

The foregoing describes the investment scenario the *Contrary Investor* favors: a powerful trend that will last for many, many years; companies participating in the trend that have solid earnings in many cases; and an excellent entry point for long term investors. The sun could begin to shine on solar stocks!

Cap-and-Trade

Continued from page 9

waste. That leaves the US government liable for a \$100 billion lawsuit from utilities, unless it can devise another solution.

The good news is **Electricite de France** (OTC: ECIFF), which currently owns 58 reactors around the world, has been safely and effectively recycling and storing nuclear waste for decades to comply with French policy. Until the US adopts a similar approach, waste will be a deterrent to building new plants. But those that are built – along with those in operation – will remain among the hottest assets in the industry, producing huge amounts of low-cost, carbon-neutral power.

Together, **Constellation Energy** (NYSE: CEG), **Dominion Resources** (NYSE: D), Duke, **Entergy** (NYSE: ETR), Exelon, **FirstEnergy** (NYSE: FE), FPL, **Progress Energy** (NYSE: PGN), **Public Service Enterprise Group** (NYSE: PEG), **SCANA** (NYSE: SCG) and Southern Company generate the lion's share of America's nuclear energy. Their existing sites remain by far the most likely places for new reactors to be built. Progress, SCANA and Southern already have reactors in the works.

Most of these stocks are buys. The most direct nuclear bet, however, is Constellations partner Electricite, which plans to build 10 advanced reactors around the world over the next decade. Buy Electricite de France up to USD40.

Editor's Note: Roger Conrad is editor of the *Utility Forecaster*, 7600A Leesburg Pike, West Building, Ste. 300, Falls Church, VA 22043, 1 year, 12 issues, \$129. www.utilityforecaster.com.



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