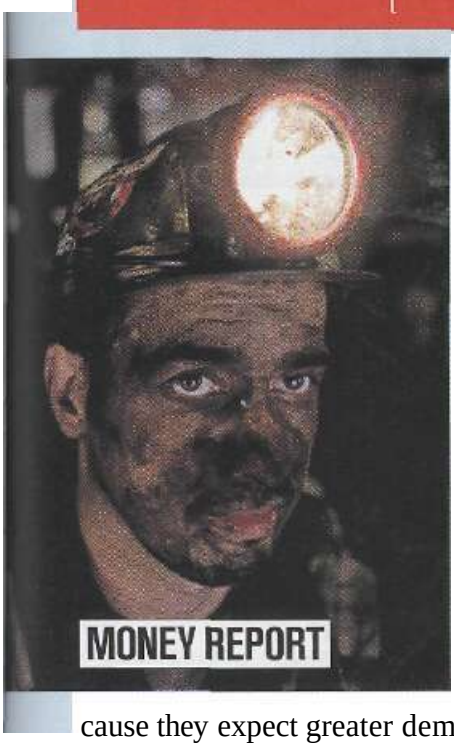

COAL GETS HOTTER

Coal companies have taken their lumps since President Barack Obama took office, with investors fearful the Administration's proposed "cap and trade" emissions plan could force one of the industry's biggest customers—owners of coal-fed power plants—to raise prices by as much as 50%, hurting demand. But some analysts are becoming more bullish, in part because they expect greater demand from China. Coal producers themselves think valuations are attractive: Mechei OAO, a Russian mining and metals company, agreed in late April to pay $436 million for West Virginia coal producer Bluestone Industries. <} Stronger-than-expected earnings from James River Coal and Consol Energy also provided evidence that supply and demand are getting back into balance. Goldman Sachs analyst Brian Singer upgraded the sector to "attractive" from "neutral," figuring prices will benefit from a second-half rebound in steel production, as well as stronger demand from China. He also upgraded Massey Energy to a buy. *-Dean Foust*

BONDS

TREASURIES ON THE RISE

Since Mar. 18, when the Federal Reserve announced it would buy up to $300 billion in U.S. debt, investors had assumed that a 3% rate on the 10-year Treasury bond was the central bank's "line in the sand." If yields went above that, the thinking went, the Fed would try to talk prices up, and thus yields down, or would buy bonds to get the same effect. But on Apr. 29, as the Federal Open Market Committee met, the yield topped 3%—and the Fed did nothing. The 10-year bond closed at 3.16%.

The Fed wants rates low to help the economy.

3.5%

Yield the 10-year Treasury could reach in three to six months

Data: AFBA Mutual Funds

But the U.S. has huge debts to fund, and investors have been favoring riskier assets over lower-yielding Treasuries. The Fed has little choice but to let rates rise. Over three to six months, expect the io~year bond's yield to move in a range from 2.8% to 3.5% before it goes higher, says Peter Greig.co-manager of fixed income for AFBA Mutual Funds. He prefers corporate bonds, but if he had to own Treasuries, he'd buy one-to three-year bonds. *-BenLevisohn*

STOCKS|

INSIDE STORY

Insiders at Microsoft, Gap, and Google dumped thousands of company shares in late April, Should investors follow their lead? Trading based on what insiders do is a poor strategy in the best of times, says James Stack, president of InvesTech Research, and even less advisable during highly volatile periods. Insiders were buying through the last half of the 1973-74 bear

market and selling in 1982, just as the Dow Jones industrial average broke 1000 on its way to 2700. Insiders tend to place trades that are driven by the size of a movement in a stock's price, says Stack. If shares fall 30%, they're likely to buy; if they rise 30% or more, they are likely to sell. Since the trades are not usually based on a change in the company's fundamentals, investors shouldn't read much into the transactions. Says Stack: "Historically speaking, these guys make very poor investors." *-B.L*

ISRAEL'S NEW PIONEERS CASH IN ON CLEANTECH

(FROM PAGE 034)

By Aaron Pressman

Clean energy may be the wave of the future, but shares of alternative energy suppliers have taken investors on a wild ride. After getting hit hard by the credit crunch last year, the sector has rallied recently as stimulus plans from the Obama Administration and other governments promise substantial sums for renewable energy projects. The Market Vectors Global Alternative Energy ETF, which tracks 30 companies around the world, lost 61% last year but has risen 22% over the past three months.

Much of the money will likely go to the industry's biggest and best-known companies, like Denmark's wind farm developer Vestas Wind Systems or solar-panel maker First Solar of Tempe, Ariz. There will also be opportunities for smaller players. But "this can be a hairy sector for investing in early-stage companies," says Edward Guinness, co-manager of the Guinness Atkinson Alternative Energy Fund.

While solar and wind projects are now commonplace, geothermal power is less developed. Geothermal systems typically use heat found deep underground to make steam and generate electricity. WaterFurnace Renewable Energy in Fort Wayne, Ind., builds heat pump systems that don't require deep drilling for homes and businesses. The technology takes advantage of modest but consistent temperatures of about 55 degrees found a few feet underground. Air pumped underground is heated or cooled, which reduces the load on traditional heating and cooling systems and cuts energy bills by about two-thirds. Over time, that offsets installation costs. Revenue is growing 50% a year, and installations haven't been hurt by the credit crunch, says *Jack* Robinson, lead manager of the Winslow Green Growth Fund. Guinness' fund owns Energy Development Corp., a Philippine utility that oversees a dozen geothermal plants and consults on projects for others.

Stocks in the biofuels area have been crushed, not just by difficulty obtaining financing but by overbuilding and rising prices for key ingredients. It isn't clear which players will survive. Still, the sector could one day generate big profits so it pays to stay up to date, says Guinness. He thinks Maple Energy, a Peruvian oil and gas producer, could become a leading ethanol supplier. Even so, Guinness sold the stock last year after a runup. "When they get their plant up and running, they'll be the world's lowest-cost ethanol producer," he predicts. But he's waiting to see how the project progresses.

President Barack Obama's plan to reduce air pollution with a system of tradable pollution rights, known as "cap and trade" could lead to the development of trading exchanges rivaling those for stocks, bonds, and derivatives. U.K.-based Climate Exchange, a publicly traded company, is the leading player in European pollution-rights trading, but Guinness says it's too pricey at more than five times expected 2009 revenue (it has yet to show a profit). Unless a national cap- and -trade system becomes a reality in the U.S., the stock is too speculative, he says.

Another player, World Energy Solutions of Worcester, Mass., trails Climate Exchange in revenue. But new Environmental Protection Agency chief Lisa Jackson is familiar with the type of system World Energy has<developed, which could bode well for the technology, says Winslow's Robinson. "They're a small player but are just becoming profitable and growing at a 50% rate," Robinson says. Investing in it now, he adds, is like being a venture capitalist. IBWI

CLEAN ENERGY PLAYS

COMPANY/TICKER	PRICE	COMMENT
Climate Exchange/ CLE*	698 pence	European pollution-rights trading platform. Owns Chicago Climate Exchange
Energy Development/ EDC**	n/a	Geothermal power utility leader
Maple Energy/MEYPF	$3.90	Peruvian energy producer building low-cost ethanol plant
WaterFurnace Renewable Energy/WFIFF	$19.93	Homebuilding slump hasn't slowed the geothermal developer
World Energy Solutions/ XWES	$6.60	Runs pollution trading system for 10 eastern states

*Trades on London Stock Exchange **Trades on Philippine Stock Exchange Data: Google Finance, as of May 4

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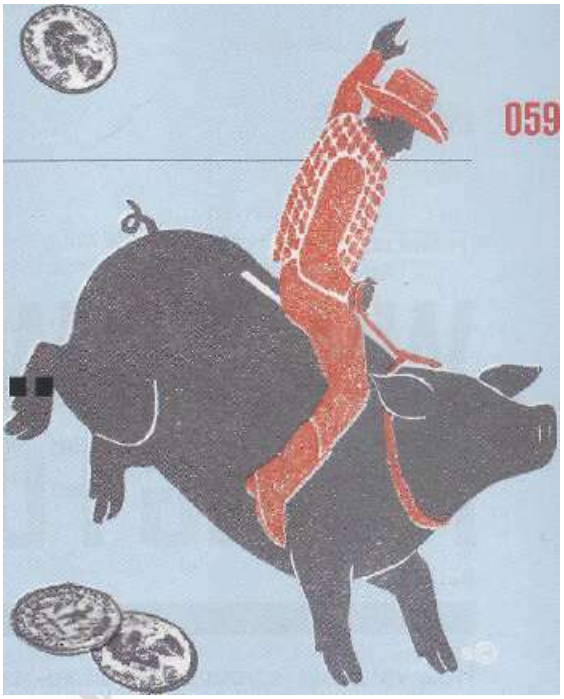
BUDGETS

A PENNY SAVED

By David Kiley



Stock market declines have laid waste to many people's retirement **plans, including** my **own.** Since my wife and I don't expect the market to retrace its highs anytime soon, we are trying to replenish our nest egg another way—by attacking our budget. We're on a mission to make up the losses and add to our principal so we're ready to pounce on opportunities when the market turns. A couple in our mid-4os with a child, we are using this crisis to rid ourselves of bad habits and to impart some valuable lessons to our son.

The first move we made was to fire the wealth-management firm we'd signed on with 16 months ago. They were charging 1.15% on the assets in our portfolio, and had advised us to go 65% in equities shortly before the market tanked. Luckily, I didn't take their advice. (Our advisers didn't even try to stop us from leaving.) Now we are steadily tunneling money into a bond index fund, a municipal bond fund, and a stock index fund at Vanguard; 25% will remain split between cash, money market funds, and certificates of deposit. Estimated savings from not using our adviser: $7,000 a year.

The next part of the Kiley Family Recovery & Reinvestment Act of 2009 involved our mortgage. We pay monthly, like most people. To knock down the principal, we are going to make smaller payments twice a month, which will add the equivalent of one extra monthly payment a year. That will reduce the 27 years we have left on our mortgage to a little more than *22* years, saving us $77,000 in interest. And we're refinancing from a 6% rate to 5.12%, with no fees and no closing costs—that's $212 less a month.

$212

Monthly amount saved by refinancing our mortgage from 6% to 5.12%

With household expenses, some economies we and other budget-minded consumers can make may seem like piddling savings. But it all adds up. And we're finding chasing savings can get addictive. Here are a few of our cuts:

HEALTH CARE I was seeing a chiropractor twice a week at $35 per visit. Cancelled; I think I can get the same relief by working out more on my underused Total Gym. Also, my wife was seeing an out-of-network specialist, which could have cost $2,000 this year. She is now seeing an in-network specialist, which requires a 90-minute round trip. With gas at $2.00 a gallon, the added fuel cost doesn't bother me.

VACATIONS We've piggybacked family trips onto two business trips this year, to New York and Florida, to save some airfare and hotel expenses. That will whittle about $3,000 off what we would have spent taking those trips on our own. We're also dining out twice a month now, rather than weekly.

CREDIT CARDS When my wife and I left our advisers, we sold our actively managed mutual funds and I paid off a $6,000 credit-card balance, saving the 13.9% I'd been paying in interest on the debt. We also got out of the American Express Rewards program. For 10 years, I'd paid a $40 annual fee to get one rewards point for each dollar spent. Each 10,000 points buys a $50 traveler's check; the 70,000 points I'd earned got me only $350 in traveler's checks—not worth the cost.

Where does all this get us? If we add what we would have spent on an adviser to the cash saved from fewer dinners out, cheaper vacations, lower debt payments, and a host of smaller cuts, we can boost principal by about $15,000 per year. If the markets bounce back sooner than we think, we hope our new habits will die harder than our old ones.

Our plan is to save money to build up our battered portfolio. The first step was to fire our financial adviser. Savings: $7,000

FINANCIAL ADVICE

WHAT'S WORTH PAYING FOR

By Lauren Young

How valuable is your financial adviser? After seeing even carefully crafted portfolios devastated by the market turmoil, many investors are wrestling with that question. Yes, good advisers will hand-hold during rocky periods and can help you stick to a smart asset-allocation plan. But what kind of entree, or break on fees, can you get from an adviser that you can't get on your own? Here are some answers:

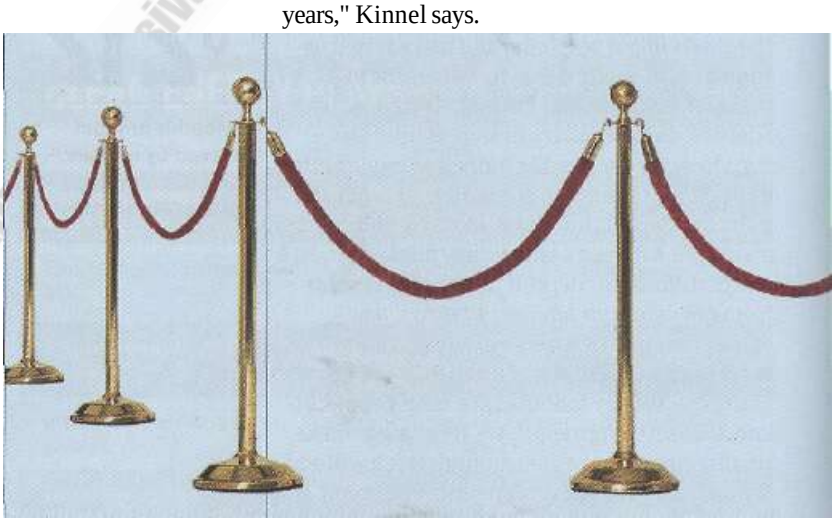
MUTUAL FUNDS

Fund families put a lot of effort into building relationships with financial advisers because their clients' money is more "sticky" and usually more substantial than the average retail account. Advisers are rewarded by being able to give clients access to funds at the same low fees charged to institutional investors, says Stephen Wetzel, a certified financial planner at Prometheus Capital Management in Yardley, Pa.

The biggest leverage advisers have is that they can pool client assets to get those institutional share classes of funds, which can otherwise have a $5 million minimum. Expenses are typically one-quarter to one-third of a percentage point below that of retail shares, says Ronald Deutsch, an adviser at Sage Capital Management in New York. He likes the PIMCO Total Return bond fund, which has a five-year annualized return of 5-7%. Expenses for its institutional shares are nearly half those for its retail shares.

Some fund families primarily cater to financial advisers, so it can be difficult to buy their funds on your own. Austin-based Dimensional Fund Advisors (DFA) sets a high hurdle for advisers who want to sell its index funds, which rely on quantitative modeling. "They want people to understand the science of their funds ... and they want people who are going to be intelligent users of what they have to offer," says David Yeske, a certified financial planner at Yeske Buie in San Francisco. He sat through a two-day seminar at a Santa Monica (Calif.) hotel and, after additional vetting to make sure he had abuy-and-holdphilosophy, got approval to distribute DFA funds to his clients. The lure for Yeske is DFA's microcap and international small-company value funds, which have below-average expenses and above-average performance.

One of the most popular fund families with independent as well as broker-affiliated advisers is Los Angeles-based American Funds, whose funds are only sold through advisers. It is now the nation's largest mutual fund company. The firm spends a lot of time educating advisers about its team-managed funds, which have deep investment expertise, low costs, and excellent long-term track records, says Russel Kinnel, director of mutual fund research at Morningstar, the Chicago-based fund tracker. "They have been good long-term stewards who have not burned investors the way a lot of the other broker-sold fund families have in recent years," Kinnel says.



SEPARATE ACCOUNTS

Separately managed accounts, at first glance, resemble mutual funds. At the core of the accounts, offered by asset management firms like Neuberger Berman and AllianceBernsteiii, are portfolio models representing a wide range of investment styles. But unlike a mutual fund, investors own the actual stocks and/can remove those they don't want. The funds also give investors the ability to take gains or losses in ways that can minimize taxes. A client of Jonathan Bergman, chief investment officer at Palisades Hudson Asset Management in Scarsdale, N.Y.,

WHAT YOU GET

The key differences between advisers who are independent and those at brokerages

FEES

Brokers, who may call themselves financial consultants, used to rely on commissions. It's more common now to charge 1.5% on the amount of assets under management. That goes for most independents, too. Typically, the rate gets lower as assets increase. Brokers may get commissions or rebates from fund families or insurance firms; independents can't accept such payments.

PRODUCTS

Advisers affiliated with brokerage firms offer financial products from a set menu of investments that are manufactured or pre-approved by their firms. Independent advisers have more freedom to choose from an array of third-party investment products supplied by financial firms that do not pay them commissions.

STANDARDS

At a brokerage firm, advisers are supposed to make "suitable" recommendations for clients. For example, it wouldn't be suitable to put an 80-year-old person entirely in stocks, or a 30-year-old primarily in bonds. To reduce conflicts of interest, independent advisers pledge to put a client's interests first, and, as fiduciaries, are bound to this promise by law.

had 70% of his $100 million portfolio tied up in the household-products industry. Since it didn't make tax sense to liquidate holdings immediately, Bergman worked with an asset manager to build a personalized separate account. It features a Standard& Poor's 500-stock index portfolio that excludes household-product companies. Bergman has winnowed his client's stake in the sector to 6% by offsetting gains on those stocks with losses in other holdings and reinvesting in other sectors. When compared with fees on institutional shares of mutual funds, those for separate accounts are higher, with expenses ranging from 1% to 1.25% of assets.

HEDGE FUNDS

Sage Capital's Deutsch works with a group of smaller hedge funds that he has screened by meeting with management, auditors, and lawyers. The price of admission is usually $1 million or $5 million, but in some cases Sage has been able to negotiate minimums of $250,000 for clients. (Clients still have to be "accredited"-meaning they'll need $1.5 million in assets.)

Merrill Lynch clients may even get access to high-profile hedge fund managers. In February Merrill offered 400 clients a conference call with hedge fund giant John Paulson, of Paulson & Co., who predicted the meltdown in the mortgage market. Paulson "really got it right over the past few years," says John Olson, a wealth management adviser with Merrill in New York. Paulson fielded questions from current and prospective investors on the call. Olson notes that abig firm has full-time staffers performing due diligence on managers.

PRIVATE EQUITY

Investors typically need $5 million to get into a private equity fund, but advisers can pool accounts to get clients lower minimums. Due diligence is "enormously labor-intensive," says Bergman. His firm invests in one out of every 10 private equity deals it reviews. "It's not terribly difficult to access private equity, it's just not easy to access good private equity," he says.

MANAGED FUTURES

Managed futures funds buy and sell currency, commodity, and equity futures as well as other derivatives within a limited partnership structure that affords tax protection. They try to capitalize on volatility using computer models to identify trends that may last a few days or months. Costs are typically *2%* of assets, and an adviser doesn't have much leverage to negotiate lower fees among the 10 o or so funds available.

After fees, some of the better-managed, medium-risk futures funds have returns in the lower teens, says Louis Stanasolovich, president of Legend Financial Advisors in Pittsburgh. He likes the fact that investors can trade in and out of managed futures once a month. He thinks that gives managed futures funds an edge over hedge funds, which may let investors withdraw money only a few times a year.

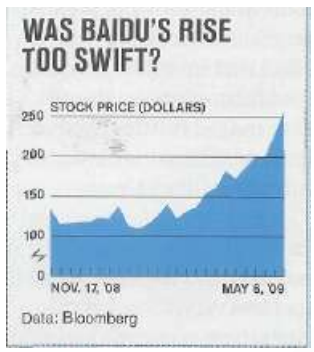
STRUCTURED NOTES

Structured notes are derivatives for retail investors. While structures vary, these hybrid securities combine some type of underlying bond with an options contract. The option bets on the direction of stocks, currencies, or other asset classes and can allow investors to benefit from up markets while receiving some downside protection. The notes are created and often backed by financial institutions such as JPMorgan Chase.

Inalow-rate environment, such notes are popular with advisers because they offer yields as high as 8% and the potential to minimize losses. Costs for bank-sold versions range from *2%* to 3%, though independent advisers such as Stanasolovich will combine client assets to get commissions as low as 0.5%. But sometimes an adviser's value is his advice about what not to buy. "We've evaluated hundreds of notes and only used three," Stanasolovich says. "Most notes we see, we don't like. There's not enough return, given the risk you are taking." iBWI

BAIDU.COM: IT'S NO GOOGLE

Shares of Beijing's Baidu.com (BIDU), the No. 1 provider of Chinese-language Internet search services, are on fire, climbing to 255.67 on May 6 from a 52-week low of 100 on Dec. 10. One big reason behind the runup: Many investors equate it with Google and see it as a promising bet on the vigorous Chinese stock market.



"The conventional view that Baidu is China's Google is wrong," says Tian Hou of Pali Capital. The two are "very different in their business fundamentals." Also bearish is Standard & Poor's Scott Kessler, who rates Baidu a sell, with a 12-month target of 205. After its sharp rise since January, Baidu is now "overvalued," he adds.

Kessler and Hou say Google clearly separates nonpaid search results from paid "auctioned" search, while Baidu mixes them on a single list. So users click more to complete a search, says Hou, thus inflating revenues. Baidu disagrees, saying it clearly marks the paid from nonpaid search results even if they are on one list. In addition, Baidu has started using a system called Phoenix Nest aimed at producing more accurate results. It also better distinguishes paid from nonpaid search results. But Hou says until Phoenix is totally in place, "it's too early to buy the stock." She also expects China to regulate Web ads—"a negative for Baidu," she says.

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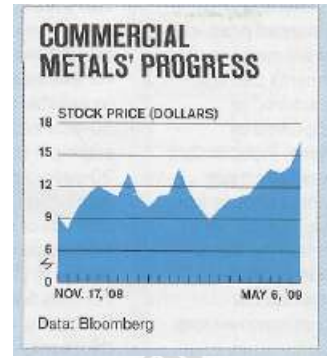
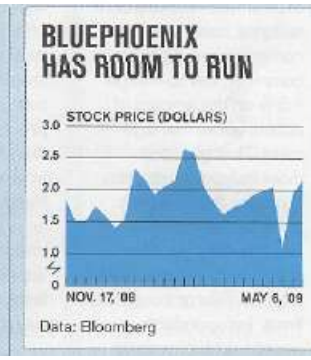


A Steel Giant Shows Its Mettle

Worries about the economy are overshadowing the long-term values in steel stocks, some of which are starting to rise. One mover is Commercial Metals (CMC), a big recycler of scrap metal and a maker of structural steel, now at 16.39, up from 6.25 onNov. 20. But it's still down from 40 in June. "It has yet to reflect CMC's strong recovery potential," says Jared Levin of investment firm A.R. Schmeidler, which owns shares.

As a major steel producer, CMC will gain from global government stimulus outlays, including those for massive road, bridge, and other infrastructure projects, says Levin. He puts CMC's value at 25, based on its earnings power, solid balance sheet, and dividend yield of 3.4%.

Researcher New Constructs says CMC's high-quality earnings and 16% return on investment capital make it attractive and offset the stock's downside risk.



Saving IT Outlays With BluePhoenix

Mounting pressure on the companies' info tech units to slash costs has been a boon to BluePhoenix Solutions (BPHX). It specializes in helping companies shift to lower-cost software systems and standardized hardware. BluePhoenix customers often save 50% to 90% on their annual maintenance costs, says Jeff Van Rhee of Craig-Hallum Capital Group, who rates BluePhoenix a buy. Although few investors are aware of this Israeli outfit, its growing order backlog and rising margins give it "significant room for appreciation," says Van Rhee. He sees the stock, now at 2.20 a share, rising to 5 in a year, (Craig-Hallum has done business with BluePhoenix.}

Daniel Meron of RBC Capital Markets rates BluePhoenix outperform, and sees earnings of 451! a share on sales of $93.7 million in 2009, vs. 35tf on $91.8 mil-Iionin2008. IBWI

Coal Gets Hotter, **Business Week**, New York, p. 57-62, May 18. 2009.