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GETTING TECHNICAL |

By MICHAEL KAHN

The Clean Energy Alternative

WITH A BARREL OF CRUDE OIL KISSING the $93/barrel level today, it is no wonder that alternative energy stocks have been doing quite well, too. After all, the higher oil goes, the more incentive companies have to bring competing products to market.

One look at the Powershares Wilder Hill clean energy ETF bears that out as it continues to reach new highs (see Chart 1). Clearly, it is still in a bull market but as is the case with many sectors in the market it is starting to reach an unsustainable pace. It's not the end of the rally but rather a time for a more conservative strategy and a chance to look for lagging stocks within the sector that might be ready to catch up.

Chart 1

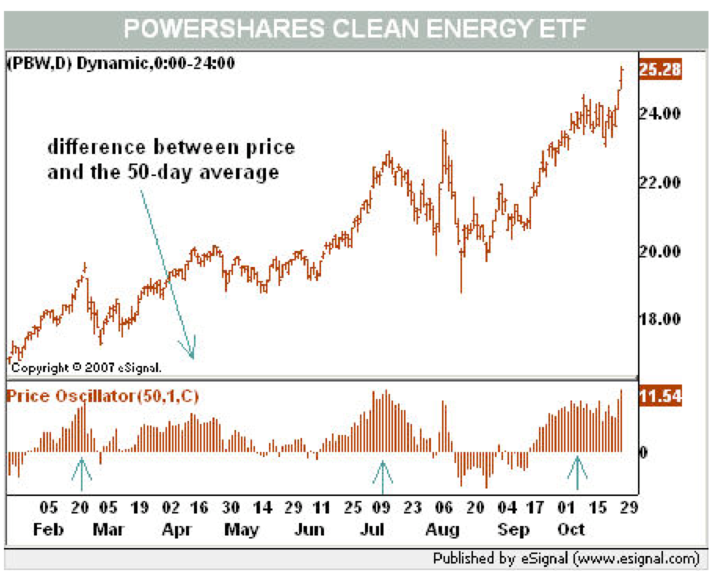


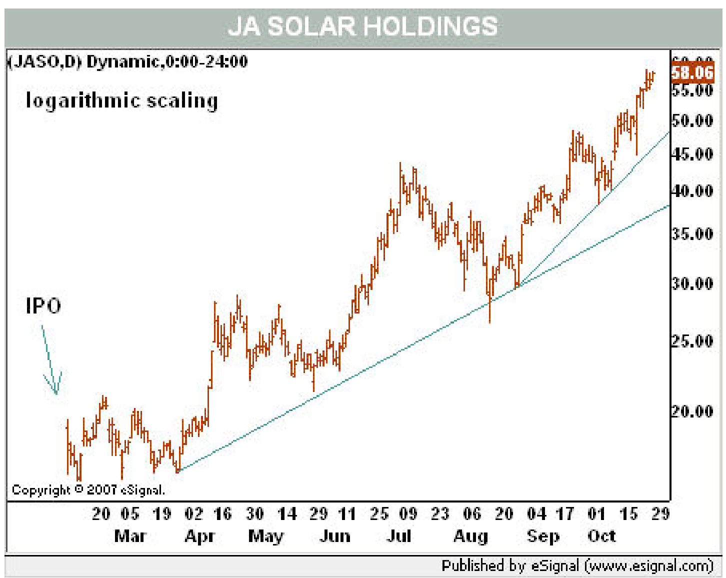
Chart watchers have many tools at their disposal to gauge whether a rally in a stock or ETF is getting overextended. Many use simple momentum indicators, such as the relative strength index.

But there's a simpler method to measure how far prices move above a standard moving average before bullish enthusiasm gets reined in. For this ETF, that level is about 11% above the 50-day moving average.

To be sure, most times the prices reach the 11% threshold do not result in more than a pause rather than a steep correction. Important tops usually take a bit more time to develop with more deterioration in technical signals. Therefore, precedent suggests that the current overheated trend is facing nothing more than much needed rest.

Within the index, shares of companies involved in solar power have been leaders. For example, JA Solar, which debuted as a public company in February, has doubled since the lows of August (see Chart 2).

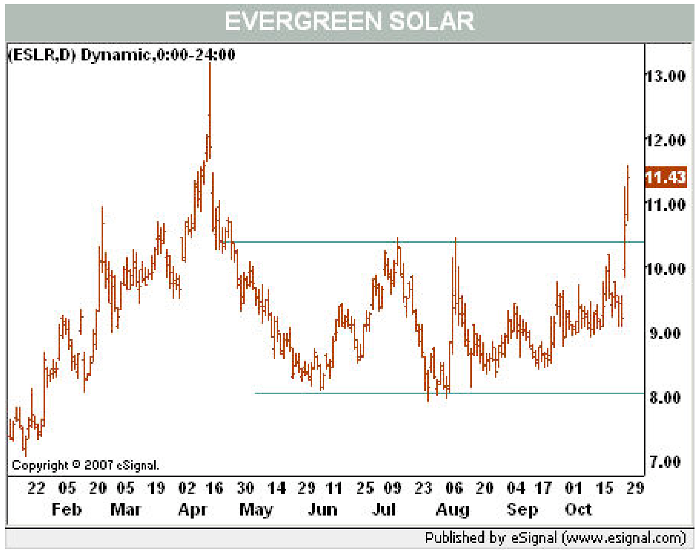
Chart 2



That kind of performance makes it very difficult to buy now, especially when several indicators are flashing their warnings. But in today's market, which is split into stocks in very strong trends and stocks in any other condition, riding these nerve-racking stallions has been the way to go.

A more palatable way to play for many investors is to buy stocks in hot groups that are just now starting to catch up. One such name is Evergreen Solar. This stock has been in a very wide range since May but jumped 16% on Friday (see Chart 3).

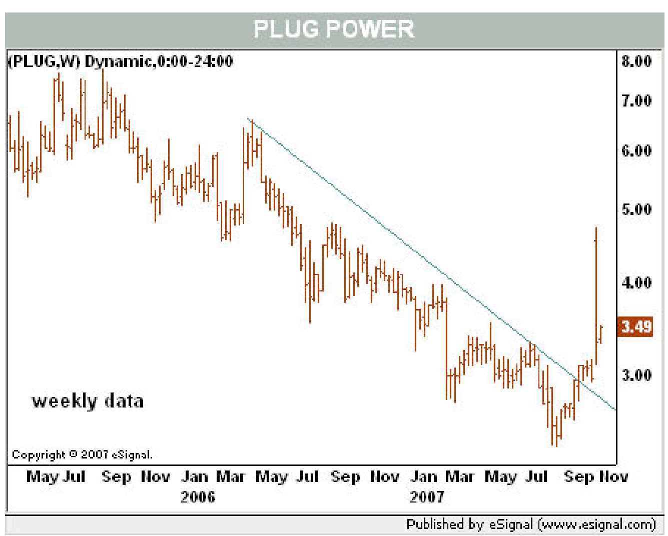
Chart 3



The market is telling us that whatever selling pressure emerged at 10.00-10.50 price zone has been overwhelmed by buyers and that frees the stock to rally further.

Another stock that has not kept pace with the sector leaders is fuel cell maker Plug Power. As with its fuel cell peers, this stock has been languishing for years and giving false breakout signals many times along the way (see Chart 4).

Chart 4

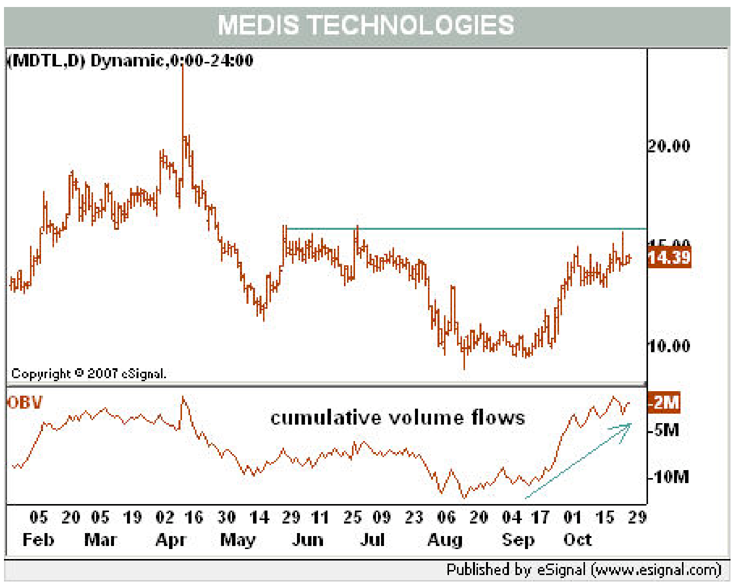


What makes the current rally different is that it has finally broken above the trendline that has guided it lower since April 2006, seen a major shift in momentum and finally some sustained demand from stock buyers.

Given its low price and risk of very sharp wiggles, such as the one seen October 22, this is not a "widows and orphans" stock but for those above to handle the risk it does seem that the long bear market here is over.

Another fuel cell stock to keep an eye on is Medis Technologies, which has also seen a pickup in demand for its shares and is now threatening to move above chart resistance (see Chart 5).

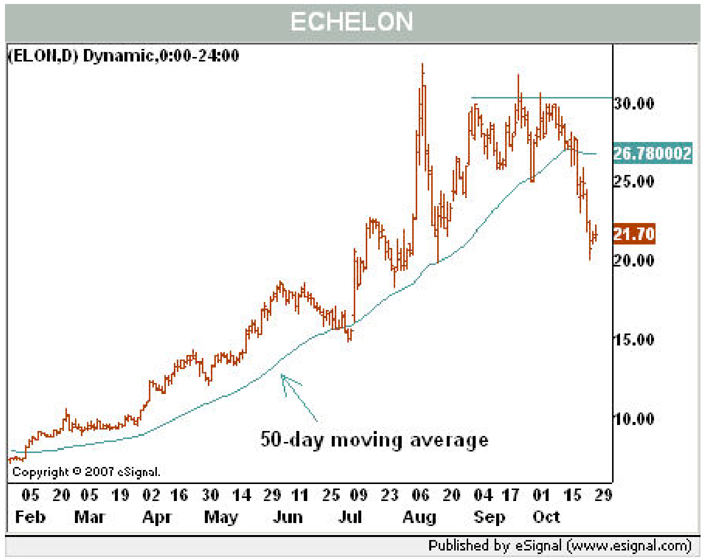
Chart 5



A zone around 16 has kept a lid on rallies since May but as the stock attacks it this month it enjoys much stronger volume inflows and decent upside momentum. In other words, investors are now looking at this stock and acting with more confidence. Should it move above 16 then it would join Plug Power in a long-term trendline breakout.

Of course, there are former high flyers that are probably best avoided, at least for now. For example, Echelon Corp struggled each time it reached the 30-level and earlier this month the bulls could hold out no more (see Chart 6). The stock began to sell off and shed nearly one third of its value. The fall was so steep that it has plunged through its 50-day moving average to signal that the bullish trend is over.

Chart 6



This does not mean the stock cannot recover, especially since it still trades at twice the price it did in March of this year. But it is likely to need a little help from its friends in the sector to give it a boost.

Again, with traditional energy prices at record highs, companies offering alternatives are gaining traction. Some are overheated and in need of rest while others offer better risk/reward scenarios in a sector that is still in good long-term shape.

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