



Al Rosen
Between the Lines

The green trap

Be a smart investor: don't throw your hard-earned money at environmentally friendly pipe dreams

In the aftermath of the income trust drubbing, people must be wondering what the next market pitfall will be. When considering such questions, it's helpful to revisit the criteria that have contributed to past market failings.

First, a business needs to appear logical and reasonable on the surface to attract serious investor attention. Second, people must be willing to ignore a lack of current profitability, in hopes of a tidal wave of future business (the "build it and they will come" mentality). Third, investors have to believe they can hit a home run by buying early before others have clued in. This can best be described as the ego factor.

With these aspects in mind, I want to warn you of the green trap. That's not a golf term, but rather when investors fall victim to throwing money at environmentally friendly pipe dreams. Green traps are similar to value-trap investments, whereby companies appear undervalued by most investment measures, but never appreciate in price because of fundamental problems.

There are no doubt some legitimate green investments out there. But, there is also a seemingly endless supply of money pits. Back in 1999, Credit Suisse First Boston issued a research report on fuel cell-maker Ballard Power Systems Inc. (TSX: BLD), estimating the B.C. company would sell 448,000 car and truck units by the end of this year. Don't worry if you haven't noticed any zero-emission fuel-cell cars driving around—you're not alone. Had you invested \$100 in Ballard at the time of the CSFB report, you would have about \$13 today. Had you invested \$100 in Ballard 10 years ago (before the tech bubble), you would have about \$57 today. The company ended 2006 with its 15th straight year of operating losses as a public company.

I mention Ballard in particular because it was seen at the time as the technological market leader. Today, the company is still viewed as a technological leader, which seems to satisfy an oft-quoted investment criterion of finding companies with sustainable



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competitive advantages. The problem is that there is no market for fuel-cell vehicles. And with apologies to CFSB, there clearly wasn't going to be a market (as detailed in our own research report for our institutional investor clients back in 1999).

Ballard, however, is far from the only green company struggling today. Hydrogenics Corp. (TSX: HYG), another fuel cell-maker, based in Mississauga, Ont., has seen its shares fall 72% in the past year and recently announced job cuts of 50 full-time equivalent positions.

Many green investments fall short of investor expectations because they end up competing for shrinking pieces of a shrinking pie. For use in train yards, Quebec-based Railpower Technologies Corp. (TSX: P) makes hybrid-powered locomotives that

cut greenhouse-gas emissions and diesel fuel use by 40-70%. Unfortunately, the greenest alternative is not the most cost effective one for the railroads. Railpower's stock has dropped 84% in the past year, as market prospects have shrunk and competitors have emerged.

A similar conundrum exists for ATS Automation Tooling Systems Inc. (TSX: ATA). The Ontario company recently pulled the planned IPO of its solar power division, Photowatt Technologies Inc., because too many competitors had recently joined the public markets, and ATS couldn't get the price it thought the division deserved.

Clearly, it's tough to distinguish the good green investments from the bad. One strategy to avoid the traps is to steer clear of early stage companies entirely. While this might hurt in the ego department, it won't necessarily cost you in the wallet. The best time to invest in a technology company (green or otherwise) on a risk-adjusted basis might be after it's already profitable.

Research In Motion Ltd. (TSX: RIM) has doubled in price since last August alone, well after the Ontario company's profitability and industry leadership had been proven. RIM turned profitable in Q2 2003, and has risen more than sixfold since then. So, the next time you're tempted by a green dream investment, try looking at the bottom line instead of the pie in the sky. **CB**

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