The Other energy Plays

The big oil and gas companies used to be the only game in town. Guess what? There are lots of new ways to energize your investing dollars.

YOU CAN ALWAYS buy shares of Exxon Mobil, Chevron, or one of the other traditional oil and gas companies on the stock exchanges. But these days, there are new ways to fill out the energy segment of your portfolio, ranging from everything from exchange-traded funds (ETFs) that focus on specific segments of the energy market to actual investments in solar power plants in California, wind farms in Texas, and the natural oil and gas trapped in shale deposits that are being developed by hydraulic drilling processes.

Solar energy ran into challenges in 2012, as manufacturers of the photovoltaic cells that go into solar panels were battered by oversupply and falling prices, but 2013 should be a year of recovery. "Solar is a white-hot energy source that is likely only at the beginning of its long-term growth story," says Harris Roen, president of the *Roen Financial Report*. An expert on alternative energy, Roen sees big profits down the road for solar companies that can make it through the rough spots.

Sensing that potential, Mosaic Inc. of Oakland, Calif., set up shop in 2010 to raise funds to invest in solar development projects. This January, the company launched an online platform that lets individuals invest as little as $25 in specific solar projects, promising a 4.5% annual return on their money. Mosaic sold out its first public project in less than 24 hours, with more than 400 investors putting in an average of $700. Using a crowdsourcing form of investing, the company plans to finance rooftop solar power plants in California, Arizona, and New Jersey. One project that's in the works will provide power for the Ronald McDonald House in San Diego.

Google, which has a good sense of what works, recently invested $200 million in a Texas wind farm. Several large banks are helping clients move into energy-related investments. One, Barclays Natural Resource Investments, provides clients of Barclays Bank with the opportunity to gain exposure to the natural resources sector by co-investing with the bank. For smaller investors, it's probably more practical to look to exchange-traded funds that put money into companies that build wind and solar farms or provide them with turbines and electrical systems.

But while solar, wind, and other new forms of energy are gaining strength, conventional fossil fuels—oil and natural gas—have regained fresh luster, thanks to hydraulic drilling and other techniques that have made it possible to recover huge reserves trapped in shale and previously labeled out of reach. Here, too, there are challenges, including opposition from environmentalists. But proponents are convinced the fears are overstated, particularly given the potential. "With new techniques like fracking, the chance of winding up with nothing but a dry hole is less than 10%," says Chris Faulkner, CEO of Breitling Oil and Gas, one of the country's largest independent energy exploration and production companies.

The cost of drilling these wells can run to $10 million each. As a result, Breitling investors must be wealthy (a net worth of at least $1 million). Patience is another necessary virtue: Because gas, in particular, is in abundant supply at the moment, the payoff is not likely to be immediate. But over the long term, owning an interest in an oil and gas well can be a hedge against inflation. "If you think that the price of oil is going to be higher 10 years from now," says Faulkner, "this is a good investment for you."

BUYING *an* OIL WELL

Breitling Oil and Gas offers investors opportunities to participate directly in the U.S. energy boom.

THE GREAT BAKKEN formation of North Dakota—the site of one of the enormous oil and natural gas fields that technological advances such as "fracking" have opened for development in recent years—is closer than you might think. Also a lot more inviting.

Like many Americans, you have probably been surprised and relieved by the revelation that the U.S. is not running out of domestically produced energy and proud to hear that the U.S. will likely become a major energy exporter before long. Still, all the excitement probably seems remote, far from your home and portfolio.

It doesn't have to be. Breitling Oil and Gas, one of the country's leading independent energy exploration and production companies, offers investors a way to buy mineral rights in the Bakken and elsewhere. It even allows investors to get as close to the property as they would like. "If you fly to Williston, North Dakota," says Breitling CEO Chris Faulkner, "we'll pick you up at the airport and take you to your rig. We'll put you in a fire safety suit, hard hat, and steel-toe boots and you can climb up the three or four stories to the top."

In addition to an exotic tour, a direct investment in an oil and gas field offers the opportunity for financial rewards, in part because it provides investors with tax benefits. For starters, the intangible costs of drilling a well are deductible from personal income taxes. Intangibles, which amount to 80% of the cost of the average well, include labor, management, and everything except the actual drilling materials that can be touched, such as pipes, drill bits, and derricks. Moreover, many of the materials can be depreciated over five years.

Bottom line: If you invest $100,000 in a well, chances are most of it can be written off. And there's more. Another section of the federal tax code, the oil depletion allowance, shields 15% of the income of an oil well from taxes.

To be sure, investing in an oil well comes with risks, the biggest being a dry hole. But with Breitling's precision targeting and extraction methods, Faulkner says the odds of finding oil and gas are 90% or better. Production rates also vary. Some wells pump 2,000 barrels a day for 20 years, while others deliver only 100 barrels a day for 10 years. There's no way of knowing in advance how much a well will produce.

Because of the risks involved, Breitling restricts investments in its oil and gas drilling programs to individuals who have a net worth of at least $1 million, exclusive of their primary residence, or who have reported income of more than $200,000 a year for two years. For investors who qualify, a stake in a patch of what looks like harsh land could help provide a contented retirement.

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