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Finance

It's time to consider investing in a liquid asset – water

Ask investors which commodity will be the best investment in the next decade, and you'll get a variety of answers. Oil and gold will be popular choices, as will copper, natural gas and maybe even palladium.



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What you probably won't find on many lists is the most important and underappreciated commodity of them all -- water.

It takes only a quick look at a satellite picture of the Earth to see that it's covered with more water than we could ever use. But looks can be deceiving. Between 1 percent and 2 percent of the planet's water is suitable for consumption, and there's no commercially viable way to increase that amount.

While skeptics correctly point out that the amount of fresh water on the planet hasn't changed for more than 1 million years, the difference is, there now are more than 6 billion people lining up at the trough for a sip.

Combine that with the damage being done to potable water supplies by industrial pollution, disease and cyclical shifts

in rain patterns, and it leads many experts to believe we're headed for trouble in river city.

WHY WATER?

Domestic water demand has been rising for quite some time. Since 1900, per-capita water usage in the United States has skyrocketed by more than 800 percent in most regions, dwarfing overall U.S. population growth in the same period.

At the rate demand is increasing, many states will encounter significant problems in the near future. In fact, according to a recent Environmental Protection Agency report, 36 states will face severe water shortages by 2013 unless consumption is drastically reduced.

As bad as things may be domestically, the situation overseas looks even worse. Only 20 percent of the world's population has access to running water, and more than one-fourth of China's burgeoning population of 1.3 billion lacks sufficient clean drinking water. The problem is so severe that the World Health Organization estimated 6,000 people die each day from diseases directly related to drinking polluted water.

But that's just the tip of the iceberg. A recent UNESCO study estimated world water consumption will jump almost 27 percent in the next two decades, from

roughly 2,182 cubic kilometers today to more than 2,764 cubic kilometers by 2025.

Much of this increase will be fueled by emerging market countries that refuse to manage their meteoric growth within the limits of their water infrastructure.

The problem is particularly acute in the emerging Asian economies such as China. In fact, the problems in China, which is undergoing a massive transfer of people from rural to urban population centers, are really emblematic of the worldwide water problem.

China has roughly the same amount of water as Canada, but with 100 times more people. No wonder almost 70 percent of Chinese cities regularly suffer moderate to critical water shortages. Things have gotten so bad that despite China's vast agricultural infrastructure, it's actually become dependent on foreign grain imports to survive.

HOW TO INVEST

Water is already big business. In fact, according to a Goldman Sachs study, the \$400 billion water distribution, purification and infrastructure sector is expected to grow between 4 percent to 6 percent a year for the foreseeable future in most developed countries, and as much as 15 percent a year in emerging markets. This growth obviously creates tremendous opportunities for long-term investors.

One way to play the global water boom is to invest in individual water-related companies. Unfortunately, there aren't a lot of household names from which to choose. While conglomerates such as General Electric and ITT have water divisions, they're only small pieces of their overall operations. And while there are investment opportunities among smaller and midsized companies, it's often hard to determine which will succeed and which will fail.

Until recently, most investors who didn't want to make bets on specific water-

related companies were out of luck. But in December 2005, exchange-traded fund specialist PowerShares came out with its Water Resources Portfolio. The fund invests in a basket of 38 global water-related stocks and is based on the Palisades Water Index, one of four domestic water-related indices (the other three are the Dow Jones U.S. Water Index, S&P 1500 Water Utilities Index and newcomer ISE-B&S Water Index).

While the fund has been in existence for just over a year, its benchmark Palisades Water Index has an enviable track record. In the past five years, the index has generated an average annual return of 16.94 percent. Its three-year track record is even more impressive, coming in at over 19.5 percent per year -- roughly twice the average return of the S&P 500 Index in the same period.

Investors interested in more exotic ways to play the water market have some options as well. Claymore Securities offers a unit investment trust that focuses on the water industry, and there are also a handful of hedge funds and private equity firms devoted to investing in water and water-related companies, including AquaTerra Investment Management and Summit Global Management.

It's hard to imagine anything more integral to our lives than water. It's the building block of our society and our physiology. Wars have been fought over it and great poets such as Frost, Kipling and Emerson have penned tributes to it.

But for investors, it may be the words of Benjamin Franklin that prove most prophetic: "When the well is dry, we learn the true worth of water."

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