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ETFs for Clean Energy Fans

A new crop of exchange-traded funds gives exposure to alternative energy companies in a straightforward, cost-effective way

by [Vaughan Scully](#)

Producing electric power from the wind or sun has always seemed like a great idea, but in reality, it often turns out to be impractical and difficult to make profitable. So it goes as well for investors. Short of owning your own windmill, there have been precious few options for those seeking to capitalize on the current groundswell of interest in alternative energy and environmentally friendly technologies.

Dozens of publicly held companies engage in all sorts of ventures from geothermal power plants to hydrogen fuel cells, yet buying their shares means betting on a single company's approach—highly risky even for those with a strong understanding of the company's technology and competitive position.

While there are numerous mutual funds that are marketed as "socially responsible investments," they usually don't target alternative energy per se and often own shares of larger companies that have nothing to do with alternative energy.

A HOST OF NEW INDEXES

Recognizing the problem, Wall Street is moving to satisfy investor cravings for a way to play the alternative energy story. The launch of

new exchange-traded funds (ETFs) gives investors exposure to alternative energy companies in a straightforward, cost-effective way, yet without the risk of investing in any one of them individually. Several such ETFs were unveiled this year, and more are in development.

CLEAN ENERGY PORTFOLIO

... new ETF will have to compete with the granddaddy of alternative energy ETFs, PowerShares WilderHill Clean Energy ([PBW](#)). It tracks the WilderHill Clean Energy index, which is composed of 40 companies involved in alternative energy production or technology, none of which represents more than 4% of the total. The Clean Energy Portfolio has a market capitalization of almost \$1 billion, and the Chicago Climate Futures Exchange plans to list futures on the index later in 2007.

PowerShares also markets another ETF based on a WilderHill index, the Progressive Energy Portfolio ([PUW](#)), which includes companies with products that lessen the environmental impact of existing fuel sources and improves the efficiency of their use. It started trading in October, 2006, and has a market capitalization of about \$30 million.

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