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Investing in Sustainable Energy ETF's

A Little Less Nail Biting?

In an earlier post I talked about the explosion of sustainable energy indexes since 2004 (particularly during the past 12 months when 14 of the 29 indexes I listed have been announced – see **A Quick Guide to Sustainable Energy Equity Indexes**, October 22nd). Recently I went looking for **Exchange Traded Funds** (ETF's) that might be based on these indexes.

What I found was a bit of a surprise - at least for me. Despite the creation of 29 sustainable energy indexes only six corresponding ETF's appear to have been developed to date. Admittedly sustainable energy is a small investment niche and perhaps six funds are plenty for meet the needs of interested investors. However, based on the number of indexes, I was expecting see a wider range of new ETF's. Probably unrealistic on my part.

Powershares is clearly the most active fund manager in this regard, fielding four of the six sustainable energy ETF's found. And **WilderShares** is the most popular provider of indexes in this sector, with three of the Powershares funds based on WilderShares indexes. Briefly, the six funds are:

1. **Powershares WilderHill Clean Energy Portfolio Fund** (AMEX: **PBW**)
   Replicates the WilderHill Clean Energy Index, focusing on green and renewable sources of energy and technologies which facilitate cleaner energy.

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3. **Powershares WilderHill Progressive Energy Fund** (AMEX: **PUW**)
   Based on the WilderHill Progressive Energy Index, comprised of US-listed companies focused on transitional energy bridge technologies, with emphasis on improving use of fossil fuels.

4. **Powershares Global Clean Energy Fund** (AMEX: **PBD**)
   Based on the WilderHill New Energy Global Innovation Index, composed of companies focusing on green and generally renewable sources of energy and technologies facilitating cleaner energy

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Although, the mandates differ (albeit within a narrow niche), there appears to be a lot of overlap in the holdings of the funds. Looking at the top 10 holdings of each, 10 companies are held in two or more funds and the most popular stock, **First Solar Inc.** (NASDAQ: **FSLR**), is held by four of the six funds.

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Why ETF's?

As I've noted previously, the risks associated with investing in individual stocks, particularly in the small and medium-cap stocks that make up much of the sustainable investment sector, may be greater than many investors are prepared to take on. Small and medium caps are likely to be more volatile and less liquid than more established companies. These companies and the sustainable energy sector in which they operate are still evolving, and while this offers greater growth potential than more established companies or sectors, it may also make the stocks more sensitive to changing market conditions.

Funds, including ETF's and mutual funds offer the opportunity for partial diversification, escaping some of the risks in investing in individual equities. (Although, because these funds are focused on a single industry segment they do not offer the same opportunity for diversification as a broad-based index such as the S&P 500 or a corresponding fund.)

Compared to mutual funds, which can offer similar diversification opportunities, ETF's are generally more cost effective. For example, while the average (net) expense ratio for the six funds discussed herein is 0.69%, the (net) expense ratio for ….

For small investors, investing in indexes and funds can also save you time researching and tracking individual stocks. The index originators take on the task of finding acceptable companies so you don't have to.

So, if you still want to invest in the sustainable energy sector, these funds offer a cost-effective alternative with a little less nail biting than you might otherwise experience.