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Is Now the Time to Buy Alternative Energy ETFs?

By Ron DeLegge, Editor

SAN DIEGO (ETFguide.com) – A new boom in energy is happening and it's not the 25 percent less you're paying for a gallon of gasoline.

It's called the alternative or green energy movement.

Renewable energy uses natural resources like sunlight, wind, rain, tides, and geothermal heat to produce energy. High oil prices, concerns about global climate change, and the government's growing support of renewable energy through legislation has driven the push to commercialize alternative energy sources.

Interest in clean energy technologies by venture capitalists remains high.

According to a recent Ernst & Young report using data from Dow Jones VentureOne, $571.6 million of venture capital was invested in 34 clean technology companies during the first quarter of 2008. A significant portion of investment was focused on alternative fuels ($178 million), energy/electricity generation ($148.3 million), and energy efficiency ($116.4 million).

The vast majority of investors will never get the opportunity to invest in venture funded start-ups and even if they could, most probably couldn't stomach the risk.

The next best option may be exchange-traded funds(ETFs).

Getting Exposure Even though the total number of ETFs that invest in alternative energy strategies has jumped to 15 from just two over the past few years, the universe is still very small.

Currently, about $4 billion in assets is invested in alternative energy ETFs.

The four ETF families that offer alternative energy investments are Claymore Securities, InvescoPowersShares, First Trust Advisors, and Van Eck Global.

The range of investment strategies are a broader industry sector approach, with ETFs like PowerShares WilderHill Clean Energy Portfolio Fund (AMEX: PBW) or

PowerShares WilderHill Progressive Energy Portfolio Fund (AMEX: PUW). Each of these funds cover a range of emerging technologies like biofuels, wind power, hydroelectricity, geothermal power and solar energy.

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Learning from History Like previous booms and busts, the losers always outnumber the winners.
Take for example the Internet boom of the mid to late 1990s.

Anybody can remember the few winners, like Amazon.com, eBay, and Yahoo. But do you remember the countless number of losers like eToys, Pets.com, Webvan and the others like them?

By investing in a group of stocks versus just one company, ETFs can help you to reduce the financial hit of individual stocks that implode.

Risks and Rewards Like most emerging industries, alternative energy is volatile and littered with risks.

PBW gained 59.4 percent in 2007 but has given back 59.7 percent so far this year. If you decide to invest in alternative energy, don't be naive to the inherent ups and downs.

Be aware that most of the alternative energy companies have yet to turn a profit. It's very similar to the good old days in the late 90's when many Internet startups were all promise and no profits. Some succeeded, but most failed.

Another potential risk is the lack of diversification compared to established industry sectors.

PBW has just 47 holdings and sub-sector focused ETFs like solar or nuclear power can have even fewer holdings.

What place should emerging energy stocks have in your investment strategy?

After you've laid the foundation of your portfolio with a diverse mix of asset classes using broadly diversified low-cost index funds and ETFs, consider adding investments in the emerging energy movement. It could be just the ticket to boost your future gains.