Industries

Clean capital

Exchange-traded fund based on clean energy to debut Thursday.

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PowerShares Capital Management said it will launch the first exchange-traded fund based on clean energy on Thursday.

The fund, PowerShares WilderHill Clean Energy Portfolio, will mirror the WilderHill Clean Energy Index, which at $160.20 is up 27.7 percent since its inception on August 16. By comparison, the Dow Jones Industrial Index has risen about 8.1 percent since then.

“We know many investors are interested in this market segment, and we understand this could have tremendous growth potential in the future, so we were looking for a way to get direct investment access to this group,” said Bruce Bond, president of PowerShares Capital Management. “We are seeing a big movement to move away from purely fossil fuel use to use more environmentally friendly and clean energy sources, which has really started to gain momentum over the last two to three years.”

The United States is importing about 60 percent of its oil, and—mainly due to wars—people are recognizing the economic and political risks of oil dependence, said Mr. Bond. Also, oil prices have been rising while prices for wind and solar power are decreasing. “We believe we’re at a convergence point where clean energy can compete head to head with fossil fuels,” he said.

Share prices for the clean energy portfolio will start at $15, said Mr. Bond. Because the fund is an ETF, there will be no cap to the number of people who can invest or the amount that can be invested.

The fund is being launched along with six other portfolios, called PowerShares Dynamic Style Portfolios. All seven funds were previously expected to launch February 4, but were postponed by a delay in the Securities and Exchange Commission approval process, said a PowerShares spokesperson.

Robert J. Wilder, president and founder of WilderShares, which maintains the index, said it currently includes 37 stocks, and is rebalanced quarterly. A committee—currently made up of nine people, although one or two might be added—selects the stocks based on their relevance to clean energy, technological significance, and intellectual property, among other factors, he said.

The committee includes engineers and scientists involved in the industry, along with a few financial experts, said Mr. Wilder. The focus on technology distinguishes the index from socially responsible portfolios, which tend to consider such factors as whether a company's board is ethnically diverse, or how much it contributes to charity, he said.

The index is also different than traditional portfolios, said Mr. Wilder. “We don't look at criteria other analysts look at, such as whether companies are going to hit their expected earnings,” he said. “We find those things tend to take care of themselves, if you have a technologically significant company.”

While this technology-focused, rather than financially focused, strategy could seem risky, the index has outperformed other indices like the Nasdaq Composite Index or the S&P 500 Index in the last year. According to PowerShares, the fund would have grown 12.98 percent in 2004, compared with 9.16 percent growth for the Nasdaq and 10.88 percent growth for the S&P 500. The theoretical results were determined by a mix of actual results and back-testing, said Mr. Wilder.

However, in the same test over a three-year period, the fund would have decreased 2.25 percent, compared with a 3.71 percent increase in the Nasdaq and a 1.82 percent increase in the S&P 500. Mr. Wilder attributes these theoretical results to the tech crash.

Not defensive

The index seeks to truly reflect the clean energy sector, said Mr. Wilder. While the committee does choose technologically promising stocks, it doesn't invest “defensively” when the market drops, he said.

As the only clean energy index, WilderHill is not only tracking, but defining, the clean energy sector, according to Mr. Wilder. The index does not include “cleaner” technologies, like those that reduce the impact of using fossil fuels. It only includes companies involved in renewable energy, including wind, solar, and hydrogen, he said.

Mr. Bond said the fund does “start to legitimize clean energy as a group.” Alternative energy companies are still fairly new to the market, and most are not even categorized as part of the energy industry in the major indexes. The S&P codes, for instance, list the bulk of clean energy companies under “industrials,” he said. Other clean energy companies are categorized as “information technology,” “consumer discretionary,” or “consumer staples,” he said.

“Clean energy is a part of the energy sector and I think it will start to be seen in that way in time,” said Mr. Bond. “As the group emerges and grows, more and more people will want to have investment and access to it.” Additional funds focused on clean energy companies are likely to come to the market in the future, he said.

Still, investors should remember that the portfolio is a small segment of the market, and can tend to have more volatility than the overall market, said Mr. Bond. “This should be a portion of their assets, and not all of their assets, if they invest in a fund like this,” he said.

Rona Fried, president of SustainableBusiness.com and a WilderHill board member, said the fund is a big step for the clean energy industry because it will help convince investors and others that clean energy companies, as a group, are doing well. "Fifteen years ago, the thought of having a clean energy index was just laughable," she said. “Clean energy didn't exist except in the research lab. We have really come a long way, and I don't think anyone denies that clean energy is going to play a big role now.”

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