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A Green Fund That Still Soars

ETFs that invest in alternative energy have been crushed. During the past three years, **…** **Solar Energy** fell 38.4% annually, while … **Global Wind Energy** fell 17.2%, according to Morningstar. Producers of solar panels and wind turbines struggled to match cheap competition from China and other countries, triggering much of the collapse. In addition, low natural gas prices have made consumers less eager to adopt alternative energy.

Can wind and solar stocks revive anytime soon? Maybe not. Many companies remain on shaky ground. Hundreds of alternative energy companies have shuttered their doors in the past year, and more are likely to follow. But there is a steadier way to bet on greener technologies: **PowerShares WilderHill Progressive Energy Portfolio** (PUW). The PowerShares ETF does not hold solar or wind businesses. Instead, it focuses on companies that are working to make traditional energy systems more efficient. Holdings include companies that reduce coal emissions and produce efficient cars.

The stocks in the ETF have been thriving as consumer and corporate buyers struggle to hold down costs and reduce pollution. During the past three years, the PowerShares fund has returned 8.0% annually. The performance was particularly notable in the past year. While many solar funds lost more than 38%, the PowerShares fund gained 10.5%.

The ETF remains attractive because it focuses squarely on some dynamic businesses with steady sales, says Carolyn Hill, an ETF specialist for IndexUniverse.com. "I'm not sure if the country is quite ready to embrace solar power, but many people do want to buy energy-efficient refrigerators," she says.

The ETF tracks an index of about 50 stocks that is assembled by researchers for WilderHill. The researchers vet the stocks and aim to provide a diversified collection that covers a range of industries. The index excludes stocks with market capitalizations of less than $150 million. The top 40 holdings each account for about 2% of assets. Some small stocks each account for about 0.5% of assets.

While the solar and wind ETFs emphasize fledgling companies, the PowerShares fund owns a mix of large and small stocks. Many holdings are solid businesses with long track records. In some cases, the PowerShares companies focus exclusively on energy efficiency. But many holdings operate diverse businesses, including lines that are not connected to energy.

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…. As energy costs rise, investors bid up the shares of companies that stand to benefit from cost-containment efforts. But the PowerShares fund has outperformed typical energy funds, which focus on big oil companies. During the past five years, the PowerShares ETF returned 1.7% annually, compared to -1.7% for the average energy mutual fund tracked by Morningstar.