

Excerpt from Alt Energy Stocks, May 2009

http://www.altenergystocks.com/archives/2009/05/not_all_alt_energy_etfs_were_created_alike_1.html

Not All Alt Energy ETFs Were Created Equal

A few months ago, I conducted analyses of the wind and solar power ETFs. I've recently turned my attention to the general alternative energy ETFs, or those that span several sectors.

The general alt energy ETFs fall into two categories: 1) US Only and 2) Global. The US Only ETFs are the First Trust NASDAQ Clean Edge US Liquid (QCLN) and the PowerShares Clean Energy (PBW). The Global ETFs are the iShares S&P Global Clean Energy Index ETF (ICLN), the PowerShares Global Clean Energy Portfolio (PBD) and the Van Eck Global Alternative Energy Fund (GEX).

The chart below shows 1-year's worth of weekly returns for the five ETFs. You can click on the chart for an expanded view if you are having difficulty reading it.



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As the data in the table demonstrates, there is more to picking the

right alt energy ETF than simply looking at the expense ratio. PBD, at a hefty 0.7%, has outperformed its peer group with lower volatility over the past year.

For example, \$1,000 invested into PBD six months ago would have been worth \$1,256 pre-expense on May 22, 2009, and \$1,249 post-expense. The same \$1,000 invested in ICLN, the 'cheapest' of the group, would have been worth, respectively, \$1,179 and \$1,174 on May 22. Moreover, PBD would have achieved this performance with a lower standard deviation - i.e. volatility - than ICLN.

While one would need to test for statistical significance before making any hard conclusions about outperformance, these results certainly suggest that, when it comes to picking an alt energy ETF, one must dig deeper than simply the expense ratio, as strong outperformance in the long run can more than make up for a few basis points in extra cost.

Alt Energy & Cleantech Sector Allocation

The table below lists out the percentages of total fund assets invested into the AltEnergyStocks.com alternative energy Categories. I had to make a few judgment calls on how to categorize certain firms, with the most frequent overlap being between Energy Efficiency and Electric Grid.

It must also be said that a few of the stocks held by the ETFs, especially those that I categorized as belonging to the Energy Efficiency Category, would not qualify as either alternative energy or energy efficiency for more purist alt e investors. QCLN, in particular, holds a number of power management stocks that do not appear to be primarily, if at all, targeting environmental opportunities.

<i>% Of Fund Value Invested In Each Category</i>					
Category	PBD	QCLN	GEX	ICLN	PBW
<u>Solar</u>	35.3	36.8	34.9	51.2	36.1
<u>Wind</u>	20.0	6.4	24.8	17.9	5.7
<u>Power Production</u>	17.2	0	17.2	23.9	5.3
<u>Energy Efficiency</u>	9.1	40.2	11.6	0	13.9
<u>Ethanol</u>	4.0	0	1.0	0	3.5
<u>Battery</u>	3.2	5.4	0	0	10.4
<u>Geothermal</u>	2.5	4.8	1.1	2.1	9.0
<u>Waste-to-Energy</u>	1.4	0	3.8	4.0	0
<u>Fuel Cell</u>	1.2	1.1	0	0.5	1.5
<u>Electric Grid</u>	1.2	1.2	0	0	2.7

<u>Biodiesel</u>	0.7	0	0	0	0.6
<u>Clean Transportation</u>	0.7	0	0.3	0	4.5
<u>Biomass</u>	0.5	0	0	0	0
<u>Microturbine</u>	0.4	0	0	0	0
<u>Environmental Markets</u>	0.3	0	0	0	0
<u>Electricity Storage</u>	0.3	3.7	0	0	1.2
Hydro	0	0	0.7	0	0
<u>Ocean Power</u>	0	0	0	0	0.4
Hydrogen	0	0	0	0	2.0
Other	2.0	0.4	4.6	0	3.2

This table helps shed some light on the reasons behind the higher expense ratios for some ETFs. PBW and PBD, for example, hold 80 and 77 stocks, respectively, and span 15 and 18 categories. ICLN, by contrast, holds 37 stocks and spans only six categories. This wider coverage accounts, in part, for higher costs, although it also results in lower volatility.

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