Excerpt from CNBC, November 15, 2009
http://www.cnbc.com/id/33535018

Dipping Into Green Investing

If you're looking for ways to apply your environmental passion to your investment portfolio, there's more than one way to get your green on.

Those with the right stomach for risk can bet on individual stocks of companies at the cutting edge of solar, wind and biofuel research, putting all their eco-friendly eggs into one basket.

Those looking for more stability, on the other hand, can opt instead for funds that focus on clean energy stocks, letting professional managers chose the front-runners for them.

Green exchange traded funds, ETFs, and mutual funds, for example, provide average investors an easy entrée into the nascent and sometimes volatile world of carbon conscious investing.

In many ways, eco-friendly ETFs and mutual funds are similar—both contain a specialized basket of investments from companies engaged in alternative energy research, those that promote environmental stewardship, or those that stand to benefit from the growing demand for clean fuel.

Yet, such funds also have some important differences that investors should be aware of. Here's a quick primer.

Exchange Traded Funds ETFs, which debuted in 1993, are a lot like an index mutual fund and trade on a stock exchange throughout the day.

ETFs are also prized for their lower fees. Alternative energy ETFs, for example, have fees of around 75 basis points a year, while the expense ratio for many mutual funds can exceed 1.5 percent.

There are several varieties of green ETFs from which to choose but are generally categorized as either alternative energy, solar or wind.

The five alternative energy ETFs available invest in companies and products that use renewable sources of energy (unlike fossil fuels), such as wind and solar power, along with fringe technologies in the early stages of development, like tides, geothermal heat and biofuels.

They are: **....**

….

PowerShares Global Clean Energy [PBD 16.00 -0.0899 (-0.56%)] and **PowerShares WilderHill Clean Energy** [PBW 10.12 -0.07 (-0.69%)]. …

and ….

Because they reflect a targeted approach to investing, green ETFs—like commodity ETFs and other thematic funds—are less diversified and more volatile than an ETF that tracks the broader market. That goes double for highly specialized solar and wind ETFs, which can experience daily price swings of 10 percent or more.

“I would say [green ETFs] are more volatile than the **S&P 500,** but less so than single stocks,” says Paul Justice, ETF strategist for Morningstar.

Unless “you feel strongly” about the potential for wind or solar technology, he adds, average investors should stick with alternative energy ETFs, which are generally less turbulent.

“Right now, if you plan to go into the space, go with a broader fund, like PowerShares WilderHill Clean Energy, a more liquid fund with about $700 million in assets,” he says.

The fund is down nearly 4 percent over the last 12 months ending Nov. 9, and an unsettling 40 percent for the last three years, according to Morningstar. The S&P 500, by comparison, was up 7 percent for the last 12 months through Oct. 31 and down almost 25 percent over the last three years.

“Green ETFs have had a pretty bad run here over the last few years since it’s highly correlated with energy overall,” says Justice, noting it’ll take years before the winners rise to the top, despite government stimulus spending earmarked for alternative fuel research.

“if you have strong conviction around the green energy idea it’s a reasonable long-term investment,” says Justice.

….

Caution Ahead

Generally speaking, green ETFs and mutual funds are more volatile than their broad-based counterparts because they tend to invest in early stage firms that carry the risks associated with all small-cap growth stocks.

Government regulations, both domestic and international, can also impact green companies significantly, making it critical that funds have a deep research bench to stay ahead of them.

Such funds, says Justice, are best suited as a specialty holding rather than a core investment.

If you’re in it for the long-haul, he notes, green mutual funds make a nice addition to a well-diversified portfolio. Just practice moderation.

“I wouldn’t put more than 5 percent of assets” into these funds,” says Justice, noting those who own energy funds may already have adequate exposure.