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Alternative Energy ETFs: Murky Outlook

Alternative energy ETFs have had a dismal performance over the past few months, with only one fund in positive territory this year, **PowerShares WilderHill Progressive Energy Fund**(PUW).

Across the board, alternative energy ETFs have suffered considerably. Funds that centralize around one specific form of energy, such as the **…** within the solar power sector, or **…** within the wind power sector, have been particularly vulnerable, suffering year to date losses in the range of 27% to 31%.

Broader alt-energy funds have performed slightly better, although still incurring losses between 6% and 22%.

Only one fund, the PowerShares WilderHill Progressive Energy Fund has performed positively throughout the course of the year, attaining YTD growth of 1.53%.

The main reason for the difference is that PUW is heavily invested in non-alternative energy companies. Instead of owning the firms developing new forms of energy and their suppliers, PUW owns companies working on bridge technologies and efficiency.
….

This can happen across other sectors as well, and it means you cannot simply compare sector allocations to one another in alternative energy funds. You need to delve deeper into the subsectors, or even take a look at the individual holdings within the fund, in order to understand the inner workings of the ETF.

All in all, this demonstrates a need for investors to do their homework.

With the **iShares Dow Jones U.S. Industrials**(IYJ) up about 5% this year, it makes sense for PUW to be up as well, given that it owns industrials that are also found in IYJ. Unfortunately for investors looking to invest in this alternative energy leader, PUW has meager volume of about 10,000 shares per day.

Therefore, while PUW looks to be the best of the alt-energy bunch right now, eager investors should be wary of the fund's low liquidity, as during the "flash crash" this past May, PUW briefly plummeted to 14 cents per share. For now, better bets may be found in the natural gas sector , which is considered by many to be a bridge fuel. Overall, with potential federal legislation hanging over the sector, alternative energy ETFs look to be a murky area of investment in the near future.