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SMART MONEY

Clean-Energy Funds

By ROB WHERRY

First Solar (FSLR) has been one of the hottest stocks of the past 12 months. In 2007, this solar- panel manufacturer saw a 40-fold increase in profit, and euphoric investors have celebrated by pushing it to a recent $229 a share from a 52-week low of $51.50.

It wasn't too long ago that so-called clean-energy stocks like First Solar were considered fringe players. But as consumers and even chief executives grow tired of paying record gas and oil prices and contemplating the ramifications of global warming, there's been a sea change in the attitude toward these alternative investments.

The exchange-traded funds industry has long seen that potential. Over the past three years, it's launched a half-dozen funds that give shareholders exposure to solar and wind companies, energy-technology firms and infrastructure plays. For the most part, these funds have been decent investments. PowerShares WilderHill Clean Energy (PBW), the grandfather of the group, returned an impressive 59% last year.

These funds have not been immune to the economic concerns weighing on the stock market, however. After its impressive gains last year, PowerShares WilderHill is down about 28% this year ….

Nevertheless, the industry is still attracting a wide range of investors. Some, like J.D. Steinhilber, founder of Agile Investing in Nashville, have built small 3% positions to help diversify larger portfolios.

Of course, there are risks that have scared off many investors. Even though the clean-energy industry is just now coming into its own, many stock pickers have already discovered it. Despite a recent retreat in prices, some of these companies still look pricey.

First Solar, for example, trades at over 100 times trailing earnings, according to Morningstar. And, of course, the broad market's wild swings are also taking a toll.

In a recent report, Paul Mazzilli, an ETF analyst at Morgan Stanley, focused on PowerShares WilderHill Clean Energy, PowerShares Global Clean Energy and Market Vectors Global Alternative Energy ETFs. He found that the indexes of each were so different that it had a profound impact on their performance.

One place Mr. Mazzilli found a lot of disparity was in country allocation. Liquidity and size are also big concerns for investors because the ability to get in and out of a fund is a crucial ingredient.

PowerShares WilderHill is by far the largest of the group with $1.4 billion in assets. It also has the highest trading volume: an average of 1.4 million shares a day versus roughly 100,000 shares each for the PowerShares Global Clean Energy and the Market Vectors Global Alternative Energy funds.

Another thing to consider: If oil slides back down to below $100 a barrel, watch for clean-energy ETFs to pull back, too.

The funds aren't exactly bragging about this year's performance to date, but Mr. Steinhilber says a longer view is needed.

If, indeed, the U.S. market has bottomed out and a rally is in store for next year, he thinks the best play is PowerShares WilderHill, since it has the largest exposure to the U.S.

The U.S. is just at the beginning of fully embracing this industry, he says. Couple that with a cheap share price and he thinks there are some big returns to be had.