

Excerpt from ETF Guide, October 20, 2009

<http://finance.yahoo.com/news/Is-Alternative-Energy-Ready-etfguide-3537527351.html?x=0&.v=1>

Is Alternative Energy Ready for the Big Time?

On July 8th, 2008, hedge fund manager T. Boone Pickens declared to the world his plan to make the United States 'energy dependent.' One short year later, Pickens changed his tune.

On July 7th, 2009 he scaled back his ambitious alternative energy plan, by rescinding support of a huge Texas wind farm.

Does this spell trouble for alternative energy sector?

Banking on Natural Resources

Renewable energy uses natural resources like sunlight, wind, rain, tides, and geothermal heat to produce energy. High oil prices, concerns about global climate change, and the U.S. government's growing support of renewable energy through legislation has driven the push to commercialize alternative energy sources.

Still, alternative energy faces many obstacles.

Troubled credit markets along with falling natural gas prices have eliminated or stalled many alternative energy projects. Inexpensive traditional energy sources, like fossil fuels, dampens interest and demand for alternative energy. Also, the high flying solar-power industry has experienced delays in commercial projects and job layoffs.

Many companies within the alternative energy sector are funded by venture capitalists and not yet publicly traded. The vast majority of investors will never get the opportunity to invest in venture funded start-ups and even if they could, most probably couldn't stomach the risk.

The next best option may be exchange-traded funds (ETFs), let's analyze alternative energy ETFs.

....

Broader Alternative Energy Stocks

For a broader industry sector approach, see the PowerShares WilderHill Clean Energy Portfolio Fund (NYSEArca: [PBW - News](#)) or the PowerShares WilderHill Progressive Energy Portfolio Fund (NYSEArca: [PUW - News](#)). Each of these funds cover a range of emerging technologies like biofuels, wind power, hydroelectricity, geothermal power and solar energy.

Risks and Rewards

Like most emerging industries, alternative energy is volatile and littered with risks.

For instance, PBW gained 58.5 percent in 2007 but gave back 68.87 percent in 2008. Year-to-date, PBW has gained almost 29 percent. So here's the lesson: If you decide to invest in alternative energy, don't be naive to the volatile ups and downs.

Be aware too that most alternative energy companies have yet to turn a profit. It's very similar to the good old days in the late 90's when many Internet startups were all promise and no profits. Some succeeded, but most failed.

Don't Dismiss Traditional Energy

One more thing: Before you conclude that traditional energy stocks will go the way of the dinosaur, just know that many companies have already embarked on alternative energy projects in order to stay competitive. Unlike their upstart competitors, they have deep pockets and experienced management.

To that end, investing in the Select Sector Energy SPDR (NYSEArca: [XLE](#) - [News](#)) is another way to get exposure, albeit indirect exposure, to the wild world of alternative energy. XLE contains 40 energy stocks that inside the S&P 500 index. Top holdings include Exxon Mobil, Chevron, and Schlumberger. XLE has gained 27% on the year.