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Funds, Too, Are Mining New Energy Sources

By J. ALEX TARQUINIO

EXCHANGE-TRADED funds that focus on alternative energy have proliferated in a very short time, and many of them have been mirroring the sharp swings in the oil markets.

“Essentially you are betting on which ones will get pushed around by oil prices the most,” said Jeff Tjornehoj, a senior research analyst at Lipper.

[Morningstar](#) tracks three traditional mutual funds that focus on alternative energy — from the Calvert, Guinness Atkinson and Firsthand fund companies — but there are at least 16 E.T.F.’s that also focus on new power sources. And more than half of those E.T.F.’s were created this year.

Many of these E.T.F.’s focus on a narrow sliver of the industry, like solar or nuclear power or [biofuels](#) like ethanol. “I don’t know of any mutual funds that are that granular yet,” said Michael Herbst, lead natural-resources mutual fund analyst at Morningstar.

Mr. Tjornehoj said that over the long haul, alternative energy “might very well be the next big thing.” But he added that this was still a fledgling industry and advised individual investors to

proceed with caution. “It could be a long time before any one of these technologies replaces oil,” he said.

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Paul Justice, E.T.F. fund strategist at Morningstar, said he was concerned that many individual investors lacked the expertise to decide which technology might become dominant — like solar or wind power — and that it might even be one that didn’t yet have a lot of publicly traded stocks, like geothermal or tidal energy.

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He said these people might be drawn more to the PowerShares E.T.F.’s that track indexes created by WilderShares, a company based in Encinitas, Calif. WilderShares excludes nuclear power companies from its indexes.

One unusual facet of the indexes, which are called WilderHill indexes, is the way they weight companies based on how important alternative energy is to each of them.

For example, Robert Wilder, the company’s founder and C.E.O., said a small, pure-play alternative energy stock like [VeraSun Energy](#), an ethanol company in Sioux Falls, S.D., might have a bigger place in a WilderHill index than a large industrial company like [Applied Materials](#), for which solar components are one part of its product mix.

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