

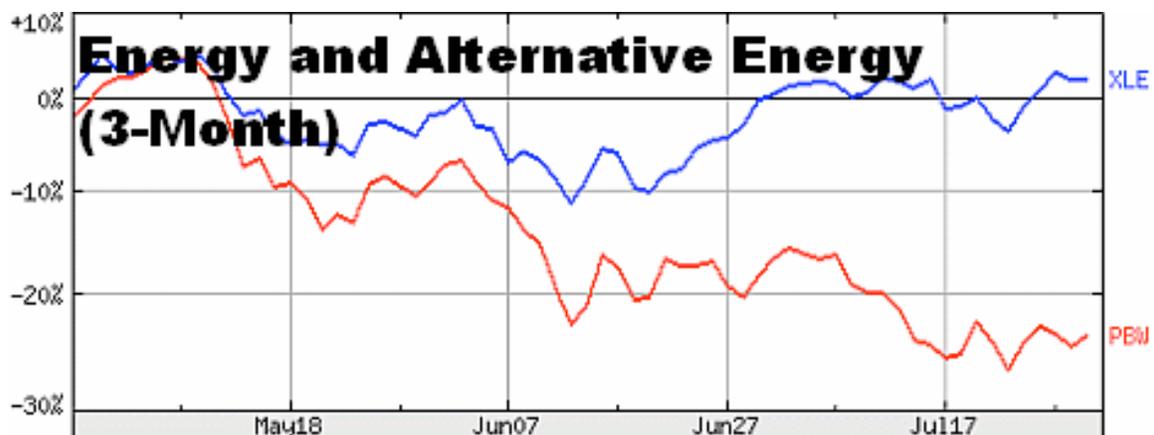
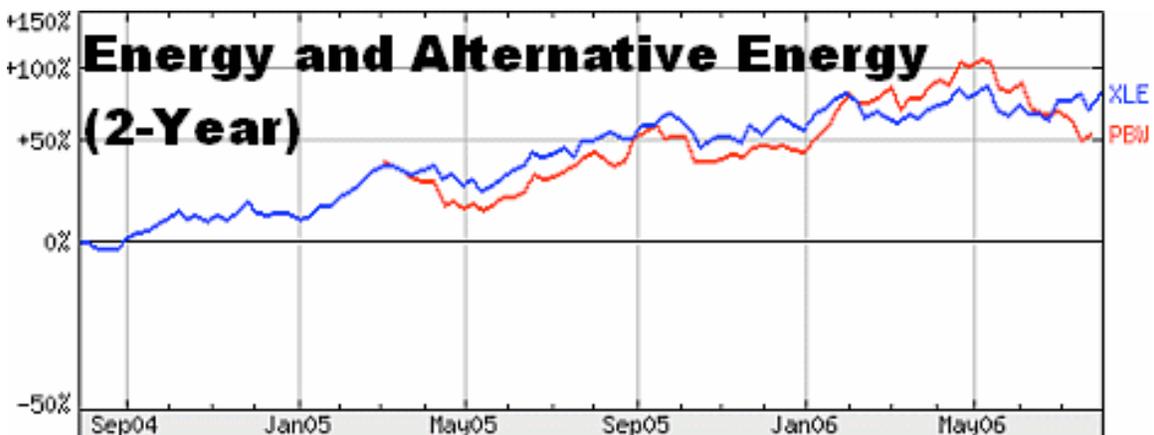
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http://biz.yahoo.com/ifunds/060730/20060730_energyalternative_com_etf_jb.html?v=1

Energy and Alternative Energy ETFs Sunday July 30, 3:31 am ET By Jonathan Bernstein, ETFzone Trading Specialist

Historically the alternative energy ETF Powershares Wilderhill Clean Energy (AMEX:[PBW](#) - [News](#)) has traded in tandem with more traditional oil- and gas-focused energy funds. But over the last three months this has changed. While traditional energy ETFs has outperformed the market, alternative energy fund PBW has sold off sharply. This recent divergence may provide investors with an opportunity to diversify by adding PBW to a portfolio of conventional energy assets.

The two charts below compare the performance of alternative energy PBW with the more traditional Energy Select Sector SPDR (AMEX:[XLE](#) - [News](#)). The first chart below compares the two on a 2-year basis. The second chart below compares the two on a 3-month basis.



As the charts above show, PBW has fallen sharply over the last three months. XLE is close to unchanged but still has outperformed market benchmarks down 2-5% during this period.

Although technically they have demonstrated similar performance (presumably because both benefit from higher oil), fundamentally the energy and alternative energy industry as represented by XLE and PBW have some key differences that impact performance.

First of all, XLE holds some of the largest companies in the world-- vertically integrated and diversified oil majors like Exxon Mobile (NYSE:[XOM](#) - [News](#)) and Chevron (NYSE:[CVX](#) - [News](#)). By contrast PBW holds some of the smallest companies held in any ETF, and some of the smallest publically traded companies period. Two of PBW's top ten holdings, Mechanical Technology (Nasdaq:[MKTY](#) - [News](#)) and UQM Technologies (NYSE:[UQM](#) - [News](#)) have less than 100 million in market capitalization. PBW holds many small companies. In fact, the combined market cap of the top ten holdings in PBW is under 5 billion, and half of that is from a single company, International Rectifier (NYSE:[IRF](#) - [News](#)). By contrast, Exxon, the largest holding in XLE, has a market cap of 400 billion.

Secondly, companies held in XLE are some of the most profitable and cash-rich companies in the world, with Exxon for example earning about 10 billion a quarter lately. By contrast, most companies in PBW are losing money, and on very little revenue.

Thirdly, PBW is invested almost entirely in highly experimental technology-focused companies. While these small companies, like the oil majors, stand to benefit directly from higher oil, even more important for their success are probably regulatory changes, subsidies, and a more global perception of the need for alternative energy solutions.

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In the current environment of decelerating growth, higher inflation and war, a defensive growth sector fund like XLE with exposure to crude clearly remains a core holding for investors. But high oil prices and the increasing importance of alternatives to conventional energy sources make the development of new technologies inevitable. An right-sized investment in PBW at these levels makes a good complement to a traditional energy portfolio.

[Jonathan Bernstein](#) has specialized in short-term trading of equities and equity options since 1998. He is the author of a recent book on ETFs: "Sector Trading: a Year in Exchange Traded Funds."