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OUR TAKE

Three Things to Know About Your ETF

By Tim Beyers (TMFMileHigh)
April 7, 2005

You've no doubt heard of exchange-traded funds, or ETFs, by now. They're the relatively new and hip alternative to mutual funds that trade just like stocks. And they can be excellent tools for building a portfolio, as we've discussed in the Fool's [ETF Center](#).

But I'm also a bit wary of ETFs. That's because I get a disturbing amount of email from

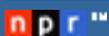
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firms proposing ETFs to take advantage of the latest trend. Take renewable energy sources, for example. Though I think there are [budding Rule Breakers](#) among the dozens of companies vying to cheaply create and sell clean power, there's an element of hucksterism in the biz, too. Consider **U.S. Wind Farming**. This Pink Sheet pig of a stock, run by a CEO who has been convicted of securities fraud, still hasn't provided financials at its website. And there are only two filings with the Securities and Exchange Commission, both of which lack any financial detail viewable over the Web-based EDGAR database. Yeah, no thanks.

Fortunately, I don't know a fund or ETF anywhere that would touch U.S. Wind Farming. But ETFs aimed at taking advantage of the rapidly growing renewable energy industry are out there, including the **PowerShares WilderHill Clean Energy Portfolio** ([AMEX: PBW](#)), launched last month. The index is made up of 37 stocks, each with significant interests in the clean-energy industry. That might sound awesome. And, on the surface, it is. But let's put it to the test by asking the three most important questions I can think of when it comes to choosing an ETF:

- 1. How diversified is it?** Very, in one sense: The 37 stocks are spread over diverse industries, but quite a few of these companies, including [perennially unprofitable Ballard Power](#) ([Nasdaq: BLDP](#)) and [struggling Plug Power](#) ([Nasdaq: PLUG](#)), are small and bleeding money. It also ignores one of the world's largest wind energy technology companies in **General Electric** ([NYSE: GE](#)). Hmmmm.
- 2. What will it cost?** The PowerShares WilderHill ETF is relatively cheap in that it charges only a 0.60% expense ratio annually. That's decent, and not far off from other low-cost, broad-market index funds. Let's move on.
- 3. Is it run by someone you can trust?** Probably, but there really isn't any way to tell. I mean, yeah, the prospectus (which you can download [here](#)) mentions that portfolio manager John Southard has been in the business for at least 13 years and with PowerShares since 2002. But it doesn't say whether he's had any success investing in speculative small caps or in the clean energy industry. His returns as a fund manager don't appear to be mentioned either. Uh oh.

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I can't find a good reason to invest in the PowerShares WilderHill ETF, especially when I know so little about the manager. Remember: When you buy an ETF or a mutual fund, you're spending good money to hire an expert who will make you more cash than you could have made on your own. Buying for "exposure" to clean energy or any other sector is like spending money on the lottery because you want "exposure" to gambling. Neither makes sense -- unless, of course, your only aim is to lose money. Again, no thanks.

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Motley Fool contributor [Tim Beyers](#) loves his funds and stocks equally. He's just that kind of guy. Tim didn't own shares in any of the companies mentioned in this story at the time of publication. You can find out what's in his portfolio by checking Tim's Fool profile, which is [here](#). The Motley Fool has a [disclosure policy](#).

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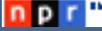
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