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Clean Energy ETF's Surge Surprises Its Founder

By John M. Biers
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HOUSTON (Dow Jones)--When Rob Wilder started the PowerShares WilderHill Clean Energy (PBW) exchange-traded fund in 2005, the San Diego environmental scientist viewed it as a labor of love that would likely be bought mainly by academics who believe in renewable energy.

The ETF, which began in March 2005 with a mere $10 million in assets, now has more than $1.7 billion in assets and an ownership class that includes Citigroup Inc. (C), UBS AG (UBS) and other financial heavyweights. The ETF is tied to the Wilderhill Clean Energy Index.

As renewable energy stocks took off in 2007 amid surging interest in technologies that could address climate change and boost energy security, shares of the fund rose by nearly 60%. By contrast, the Standard & Poor's 500 appreciated by 4% last year, while the Dow Jones U.S. Oil and Gas Index, an index of conventional petroleum stocks, rose by 33%.

But Wilder, a fervent believer in index funds who says he isn't trying to "beat the market," isn't taking any credit for the bounty. Nor is he making any promises about future performance, calling himself an "anti-salesman." In fact, Wilder, an author who lectures at the University of California-San Diego, stated openly that he doesn't expect the fund's torrid performance to persist and that the fund could, in fact, "drop like a rock" in 2008.

"People get overexcited and people push up stock values," Wilder said in an interview from his solar-powered home in San Diego. "We're just trying to capture a sector and the sector has a long history of dropping like a rock."

Indeed, the ETF was down 10.98% in early 2008 through Friday, compared with a drop of 3.48% for the S&P 500 in the same period.

Defining a Sector

That said, Wilder is most definitely a believer in the long-term viability of renewable energy. ….

Wilder has a doctorate, a law degree and prizes from the National Academy of Sciences, but a limited background in finance. He became a believer in renewables after a prior home purchase came with a solar water heater. Wilder was skeptical of the device, but it proved efficient and effective. Since then, he has installed other energy-saving gadgetry in his current home in Encinitas, Calif., and is now converting one of his cars to run with solar energy.

"I just think these technologies are going to be superior," said Wilder. "That's different from saying, 'People who invest in this space will make money. That's a different question.'"

Wilder's original goal for the PowerShares fund was to establish an index fund for emerging energy technologies, believing the move was necessary to "give some identity to clean energy."

Wilder bases his preference for the passively managed instruments on their comparatively strong performance compared with most actively managed funds. He also points to Vanguard's official literature as a model of investment straight-talk and lauds the "transparency" of index funds.

The fund currently holds 44 equities and is designed to leverage investors to a cross-section of ventures, with holdings in solar, energy efficiency, wind and other renewable sub-sectors.

When PowerShares was started, the fund was forced to include virtually all renewable energy equities. But with the proliferation of clean technology companies' public offerings, the index now leaves out some companies. When there is a question over which equity to include, Wilder opts for a "purest play" of a particular technology.

PowerShares' biggest holdings now include JA Solar Holdings Co. Ltd. (JASO), a Chinese solar manufacturer, Emcore Corp. (EMKR), a New Mexico fiber optics company and Ormat Technologies Inc. (ORA), a Nevada geothermal company.

Wilder shuns conventional investor-speak like "bullish" or "bearish" when discussing specific renewable technologies. But some of his preferences do become apparent during the course of a lengthy interview.

Solar stocks could have a tough time continuing to rise because they've already appreciated "so much," Wilder said. Corn ethanol stocks may be less generously valued at the moment, but the enterprise is "not the greatest idea," he added.

Wilder thinks carbon sequestration - whereby coal-fired power producers and other carbon emitters pump carbon dioxide deep into the earth - is a promising way to address climate change, but the field so far is too dominated by massive companies to fit his investment profile.

Cellulosic ethanol, which can be made from waste products like paper and corn stalks, looks promising in principal but the technology is still way too early to be called a sure thing, he said. After generating much fanfare a few years ago, fuel cells are no longer viewed as so promising, he noted, adding that the biggest winners may be "things you and I can't even imagine."

(John M. Biers is the Houston bureau chief for Dow Jones Newswires, ….