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Green Funds and ETFs Reduce Your Risk

Alternative-energy choices are growing, from solar to wind power

By Katy Marquardt

Investors looking to power up their portfolios with alternative energy have a small but growing menu of options. Yet navigating the alternative-energy industry today isn't unlike picking Internet stocks in the late 1990s: There are bound to be some big winners, along with a fair share of duds. Publicly traded companies in the green sector range from established players like Suntech Power Holdings to early-stage biofuel companies, which are still "lottery tickets," says Kirk Kim, lead manager of the Transamerica Science & Technology fund.

For the bold (and those with time to do research), individual stocks are an obvious choice, but "investors must go in with the mind-set that they're not going to sell in three months," says Jeff Siegel, managing editor of *Green Chip Stocks,* an investment advisory service.

A safer way to invest in alternative energy is to spread your bets around with a mutual fund or exchange-traded fund that holds dozens of stocks. The sector hosts more than a dozen funds and ETFs, most of which invest in a mixed bag of renewable-energy technologies. While diversification reduces investors' overall risk if one or two companies in a fund go belly up, alternative energy remains a risky business. ....

Downdrafts. Consider the performance of the New Alternatives fund, a category veteran that was launched in 1982. Run by father-and-son team Maurice and David Schoenwald, the Melville, N.Y., fund has gained a respectable 8 percent annualized return over the past decade. But not without turbulence: It rose 52 percent in 2000, fell 12 percent in 2001, and lost 30 percent in 2002. New Alternatives soared 34 percent in both 2006 and 2007; so far this year, it's down 16 percent. The $296 million fund, which levies a sales charge, invests beyond renewable energy in recycling, water, and natural foods companies with good social and environmental track records.

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Mutual funds certainly aren't the cheapest way to get access to this sector (three of the previous four funds charge more than 1.5 percent in annual fees). A no-frills route is through ETFs, which mimic indexes and, like stocks, trade on exchanges. At $1.6 billion in assets, the largest is the PowerShares WilderHill Clean Energy Portfolio, which invests in 54 mostly small up-and-comers, including top holdings FuelCell Energy, First Solar, and Ormat Technologies. Its annual fees are 0.70 percent. ....

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