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Inside the PBW mandate

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On paper, the PowerShares WilderHill Clean Energy Portfolio ETF should rise with oil prices. So why isn't it?

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Many people don't rush to eat broccoli even though they know it's good for them. Such has been the recent case with the PowerShares WilderHill Clean Energy Portfolio (PBW), an Exchange Traded Fund (ETF). On paper, investors should flock to the ETF as the latest jump in oil prices and renewed fighting in the Middle East again highlight the appeal of alternative energy. But since peaking in mid-April, the stock is down 29 percent, more than double the 13 percent decline experienced by the Russell 2000 index of small-cap stocks. Long-term potential merits notwithstanding, trying to judge an ETF by its mandate can be challenging.

The mandate

The fund's prospectus articulates the Clean Energy mandate as a focus on "technologies for the utilization of greener, more renewable sources of energy." That suggests kinship with the broader label, alternative energy.

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The ETF is not obligated to own all possible alternative or clean energy plays. Actually, it invests passively in companies that are placed by a selection committee into what's known as the WilderHill Clean Energy Index, the composition of which is reviewed at least quarterly. It's possible ADM and ANDE may already have gotten in since December, or may be selected in the future. Ditto an outfit like FPL Group Inc. (FPL), a utility that's ahead of most in use of alternative power sources such as wind, or Goldwind Science and Technology Co. Ltd., a Chinese wind-turbine company that is contemplating a U.S. initial public offering.

Two flavors

The presence of firms such as Air Products & Chemicals, Inc. (APD), Scottish Power plc (SPI), Cree, Inc. (CREE) and Kyocera Corp. (KYO) give it exposure to established companies. Yet the six categories of clean-alternative energy set forth in the prospectus suggest an emerging-developmental flavor as well:

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Comparing the median and market-capitalization weighted data columns, it's apparent that the fund holds stakes in other emerging-stage companies beyond the eight extreme-data firms listed above. The cap weighted numbers, though, make it clear that fundamentals within the established component of the portfolio are solid.

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Table C shows that aggregate growth rates of the overall collection of companies is starting to pick up steam.

Table C — Growth Rates (%)

	Mkt. cap. wghtd. avg.	**Median**
Sales (MRQ)	33.32	15.67
Sales (TTM)	43.83	10.07
Sales (5 Yr.)	4.77	7.74
EPS (MRQ)	35.21	7.45
EPS (TTM)	2.30	3.18
EPS (5 Yr.)	9.16	6.62

Note: TTM = Trailing 12 months, MRQ = Most Recent Quarter

While emerging-development stage companies tend to be risky, it looks like PBW has enough exposure to more-established firms to keep overall volatility manageable. The market-capitalization weighted beta of the December portfolio is 1.19, which is above average (1.00 suggests a level of volatility that matches that of the S&P 500). The median figure, which gives better representation to smaller firms, is much higher, at 2.18.

Table D presents various measures of Wall Street sentiment.

Table D — Investment Community Sentiment

	Mkt. cap. wghtd. avg.	**Median**
Avg. Analyst Rating: Now (1.00=best, 5.00=worst)	2.23	2.25
Avg. Analyst Rating: 3 Mos. ago (1.00=best, 5.00=worst)	2.25	2.25
EPS Est. for current fiscal yr. Now	2.42	0.26

EPS Est. for current fiscal yr. 13 weeks ago	2.31	0.27
Institutional % ownership	50.45%	49.85%
Short interest as % float Now	3.76%	10.31%
Short interest as % float 1 month ago	4.14%	9.58%

The median short interest figures show greater unease with respect to the smaller positions. But those numbers, although high, are hardly alarming. Meanwhile, estimates seem to be moving up nicely in the established section of the portfolio. Either way you look at it, the analyst rating scores are moderately positive.

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Judging the mandate

Notwithstanding casual associations that may be evoked by the phrase clean, or alternative, energy, PBW is clearly not a direct play on rising oil prices. It seems more reasonable to approach PBW as an emerging technology play with an important point of appeal being the way established stocks can buffer some of the volatility that might ensue from direct investment in the sexier emerging plays.