SeekingAlpha

PowerShares WilderHill Clean Energy ETF: Leverage Through Volatility

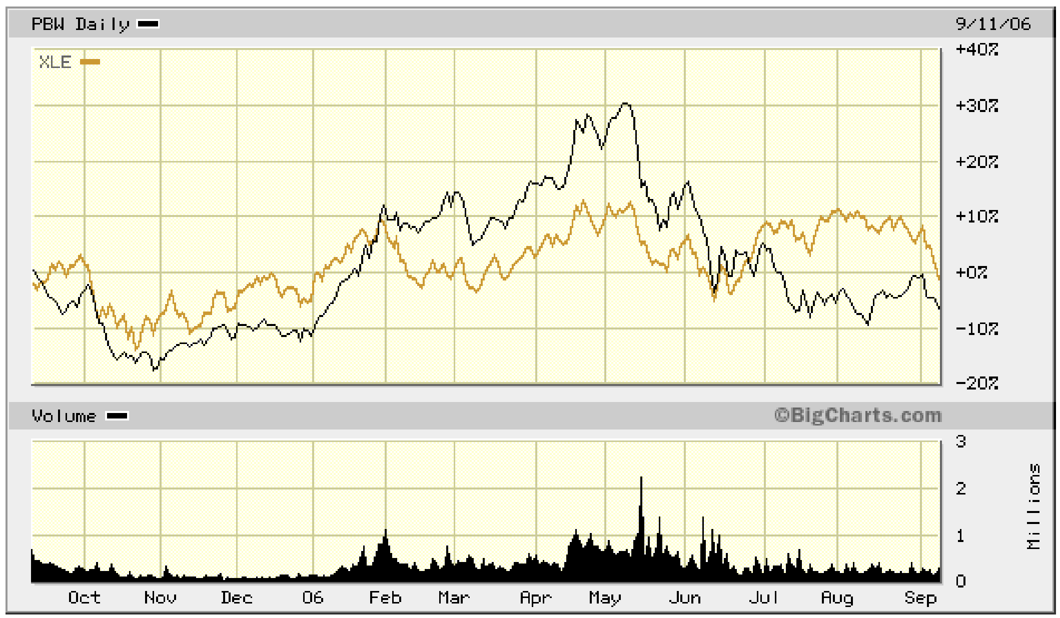
Monday September 11, 6:07 pm ET

Richard Kang submits: Back on June 12th I discussed PowerShares WilderHill Clean Energy ETF (AMEX: PBW - News), and how it behaved relative to traditional energy exposures like iShares Goldman Sachs Natural Resource ETF (AMEX: IGE - News), iShares S&P Global Energy Sector ETF (AMEX: IXC - News), iShares Dow Jones US Energy Sector ETF (AMEX: IYE - News), Vanguard Consumer Staples ETF (AMEX: VDC - News) and Energy Select Sector SPDR ETF (AMEX: XLE - News). I tried to make a case for buying PBW. The drop since then has proven me wrong, but I still think it's an important holding, and my clients have held it throughout the year (we haven't touched it), as it's only about 3-5% of the total portfolio depending on the client.

Well, it hit a low of around 16.50 on August 14th. It popped up about 10.5% thereafter, but had a 4% drop yesterday. This thing's volatile.

As discussed on June 12th, what interests me about PBW is its correlation to the traditional energy ETFs. Take a look at this chart below comparing PBW and XLE over the past 12 months. I use XLE, but any of the other energy ETFs mentioned above could be used as well, since they are very similar in nature and performance. I care more about the trend when looking at these charts for this particular bit of analysis.

Note the relatively strong correlation prior to June 2006. The key difference prior to June 2006 was PBW's stronger climb relative to XLE during the first half of 2006.

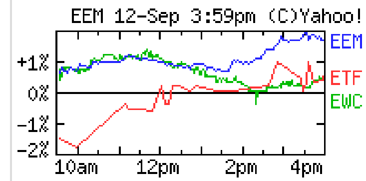


Again from my earlier piece, it's important to note how important IT is in terms of PBW's sector allocations. With a 30% IT weighting, it's fairly significant. Energy has less than a 3% weighting in PBW. So why does PBW not have a chart more similar to the Nasdaq than to XLE?

SeekingAlpha.com

- More about iShares MSCI Emerg Mkts Index (EEM) from SeekingAlpha
- More ETFs from SeekingAlpha
- Sign up for free daily research on iShares MSCI Emerg Mkts Index (EEM)

Related Quotes



EEM	95.62	+1.61	News
ETF	13.72	+0.07	News
EWC	23.54	+0.08	News
IGE	90.83	-0.48	News
IXC	99.55	-0.31	News
IYE	89.60	-0.59	News
PBW	17.31	+0.23	News

View Detailed Quotes

Delayed 20 mins

Providers - Disclaimer

Related News Stories

- Apprehension Surrounds Upcoming Ethanol IPOs - SeekingAlpha (Mon Sep 11)
- The Outlook from S&P: What's Propelling Foreign Stocks? - at BusinessWeek Online (Fri Sep 8)
- Put Some Nano In Your ETF Portfolio - at Forbes.com (Wed Sep 6)
- PowerShares Achieves Successful Proxy Vote for the PowerShares Exchange-Traded Fund Trust - Market Wire (Thu Aug 31)

More...

There are some months with great similarity (November and December 2005), and they generally both decline, as did most markets this summer. But you don't have the same strong similarity like you have between PBW and XLE prior to June 2006.

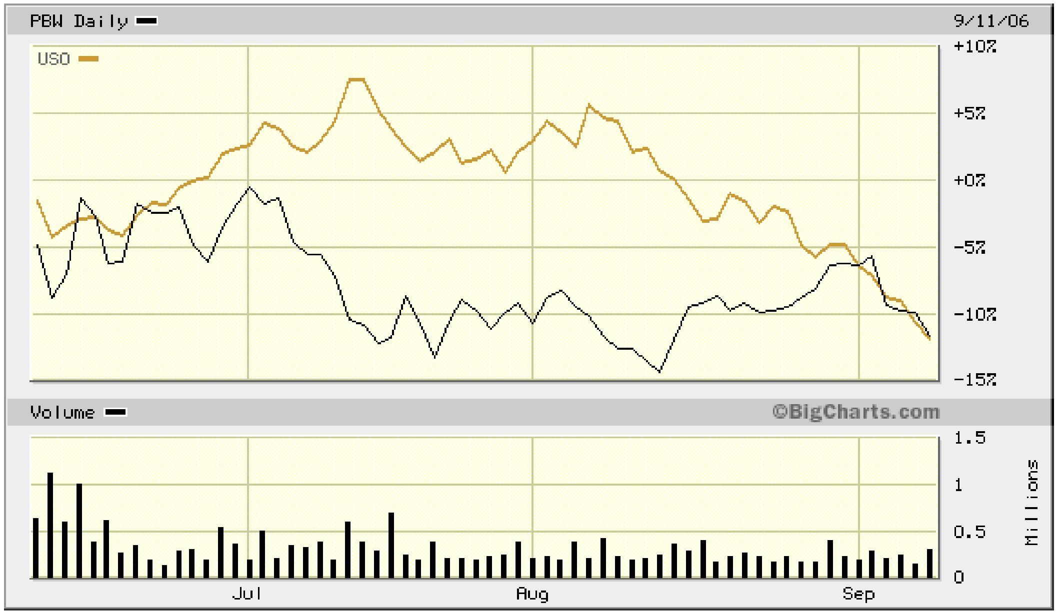
Although too simplistic in its discounting of underlying fundamentals for the component positions, PBW seems to be a vehicle traded as an energy proxy. The important question now is: What's going on post June '06 that has lead to what seems like an "out of sync" relationship between PBW and XLE? Is it simply that traditional energy rose in July and August due to the war in Israel/Lebanon? That's fairly obvious. But clearly we see a divergence after the first week of June 2006. This is the same chart as the first but only showing the past six months:

By eyeballing the lines closely, you see that the general weekly trends remain intact between the two ETFs in July and August. The only difference is the strong drive up by XLE in the latter half of June due to geopolitical concerns in the Middle East. But otherwise, we still see the same week-to-week trend matching.

PBW still seems to be an energy play, but acts as a more volatile proxy to oil producers. Sometimes we invest to diversify, sometimes it's for the story, whether it's macroeconomic or otherwise. PBW can be considered a "high volatility" energy play. I think similarly of Canada and emerging markets. Buying iShares MSCI Emerging Markets Index ETF (AMEX: EEM - News) for a Canadian investor provides no diversification, but is more like having a levered position.

iShares MSCI Emerging Markets Indx ETF (AMEX: EEM - News) vs. iShares MSCI Canada Index ETF (AMEX: EWC - News) 2-yr Daily Chart

Lastly, I compare PBW and oil itself over the past three months, which is the period I initially commented as one of divergence. It seems more clear here:



Now for the first time we see true divergence, and very little week-to-week trend-matching. My feeling is that this is not the moment many have been waiting for. That is, the moment where alternative energy and traditional energy completely de-couple as oil drops down to $30 or less and the massive acceptance of alternative energy pushes something like PBW up astronomically. New oil find in the Gulf of not, I still think we're many years away from that "paradigm shift." But I still hold 3-5% in PowerShares WilderHill Clean Energy ETF (AMEX: PBW - News) because it behaves like traditional energy, and you just never know. A 9/11 type plan except aimed at several mideast refineries could do it. I think the limited resources of what's left of El-Qaeda would likely aim for a western target, perhaps American energy infrastructure.

Moving from speculation back to investing and focusing again on diversification (especially for Canadian investors with heavy energy exposure), I'm still waiting to find out more on the new PowerShares ETFs, specifically the PowerShares Cleantech Portfolio and the PowerShares WilderHill Progressive Energy Portfolio. I wonder how they will behave compared to PBW and other energy ETFs.