Excerpt from Nasdaq.com, August 15, 2016
http://www.nasdaq.com/article/what-lies-ahead-for-alternative-energy-etfs-cm665521
Citing to Zacks.com

What Lies Ahead for Alternative Energy ETFs?

Alternative energy stocks as well as the corresponding ETFs suffered when oil prices toppled. Now, since prices are rebounding, it may be a good time for investors to revisit the alternative sector. Although the green energy sector is pretty volatile, it remains attractive and is engaging more funds than fossil fuels are.

Further, this sector could be a major beneficiary under a Clinton presidency as she is in favor of reducing US dependence on fossil fuels. As recent polls suggest strong possibility of a Clinton win, investors should take a look at alternative energy stocks and ETFs.

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Factors That Could Jeopardize the Green Sector

There are a host of factors plaguing the global economy. China happens to be one of them. Slowdown in China would likely aggravate global economic woes and hurt revenues of U.S. companies.

Gross domestic product or GDP in the world's second-largest economy grew just 6.7% in Q1, marking the country's slowest growth since the global financial crisis. Q2 growth is projected to be at or below the first quarter level.

As the world's biggest producer of solar panels is now contending with shrinking exports along with industry overcapacity, its solar industry may also be at risk. (Read: Top and Flop Sector ETFs YTD)

While the industry is faced with a number of near-term challenges, the renewable energy sector's long-term potential is undeniable as demand for green energy is strengthening at a rapid clip.

ETFs to Tap the Sector

For investors seeking to play this trend in the ETF form, the following alternative energy ETFs could be interesting picks.

WilderHill Clean Energy Portfolio (PBW)

Launched in March 2005, PBW tracks the WilderHill Clean Energy Index and manages an asset base of $89 million, which it invests in a portfolio of 39 stocks.

It is well diversified across various sectors. Information Technology takes the top spot with a 44.08% allocation followed by Industrials (21.68%) and Utilities (17.22%).

The fund's top 10 holdings jointly contribute 36.39%. The product invests almost 90% in companies that are involved in the generation of cleaner energy and conservation. It charges a hefty 72 basis points in fees.

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Global Clean Energy Portfolio (PBD)

This ETF follows the WilderHill New Energy Global Innovation Index, giving investors exposure to about 94 companies that are engaged in renewable sources of energy and technologies facilitating cleaner energy.

Assets under management are just over $56.6 million and expense ratio is 77 basis points a year. The fund's top 10 holdings contribute 20.39% to it.

PBD is heavy in Information Technology, as this represents 30.29% of the fund. This is followed by Utilities (29.69%) and Industrials (28.57%). In terms of countries, the U.S. dominates with 28.12% followed by China with 16.11%.

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Bottom Line

The depletion of fossil fuel reserves, new and advanced technologies, and more competent alternative energy applications have made green power more feasible, injecting optimism into the sector. Yet investors should closely track political factors like eco-friendly mandates and renewable energy agendas to see if potential benefits spill over to renewable companies and sector ETFs.