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Exploring sustainable energy and opportunities to invest in sustainable energy companies.

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October 22, 2007

A Quick Guide to Sustainable Energy Equity Indexes

Is there anyone who isn't trying to start an alternative energy index?



Investors wanting to participate in the sustainable energy sector should be thankful for the explosion in the number of [equity indexes](#) tracking different groups of alternative (renewable, clean) energy companies. Since 2004, more than 20 indexes (I found 25 in my research for this post, there are probably more) tracking different, but often overlapping, groups of sustainable energy companies have been developed by everyone from major financial institutions to individuals with a strong interest in alternative energy.

Unlike broad-base indexes such as the [S&P 500](#), the [Dow Jones Industrial Average](#) or the [S&P/TSX Composite](#), which are intended to represent the performance of the equity market or markets as a whole, the emerging sustainable energy indexes are designed to represent performance of a small but growing segment of the market.

Why form an index focusing on sustainable energy? Certainly the indexes set benchmarks for easily measuring and communicating the sector's performance relative to the broader market. They also provide a basis for creating [exchange traded funds](#) (ETF's) and other more specialised financial instruments that individual investors and others can use to manage the risks associated with investing in the individual companies.

The small size of many alternative energy companies, the complex nature of their technologies and the policy environment in which they are being developed, makes investing in any single company a bigger risk than many investors are willing to take. Index-based funds give individual investors a shot at the sector's growth prospects without the risk of betting on any single company's approach. Usually at a lower cost than would be possible with actively managed mutual funds that do the same job.

Take for example, the [Wilderhill Clean Energy Index](#), the granddaddy of all indexes in the sustainable energy sector. Established in August, 2004, this index serves as the basis for the [Powershares Wilderhill Clean Energy ETF](#) (AMEX: [PBW](#)).

Similarly, the more recently formed [NASDAQ Clean Edge U.S. Liquid Series Index](#), established in 2006, underlies the [First Trust NASDAQ Clean Edge U.S. Liquid Series Index Fund](#) (NASDAQ: [OCLN](#)).

More recently, HSBC announced the start of its [Global Climate Change Benchmark Index](#) on September 27th of this year. This index is complimented by four investible, special focus sub-indices (HSBC Climate Change Index, HSBC Low Carbon Energy Production Index, HSBC Energy Efficiency & Energy Management Index and HSBC Water, Waste and Pollution Control Index).

The HSBC Climate Change Index follows in the footsteps of [KLD's Global Climate 100 Index](#), both of which are not solely focused on energy but include a high proportion of alternate energy companies.

Creation of this many indexes focusing on sustainable energy gives already gives investors a host of options for investing in sustainable energy and offer the promise of further proliferation of ETF's that will give individual investors more opportunities to capture the growth prospects of the sector. More on those funds later.

Sustainable Energy Investment Indices

Index	Launch
Ardour Global Index	Mar 2006
Ardour Extra Liquid Index	May 2006
Clean Edge U.S. Index	May 2006
Clean Edge U.S. Liquid Series Index	May 2006
Credit Suisse Global Alternative Energy Index	Jan 2007
Distributed Energy Stock Index	Jul 2005
European Renewable Energy Index	Oct 2005
HSBC Global Climate Change Benchmark Index	Sep 2007
HSBC Climate Change (sub) Index	Sep 2007
HSBC Low Carbon Energy Production (sub) Index	Sep 2007
HSBC Energy Efficiency & Energy Management (sub) Index	Sep 2007
ISE-CCM Alternative Energy Index	Jan 2006
Jeffries Global Clean Technology Composite Index	Dec 2006
Jeffries Global Clean Technology Energy Generation Index	Dec 2006

Jeffries Global Clean Technology Energy Storage Index	Dec 2006
KLD Global Climate 100 Index	Jul 2005
Ludlow Alternative Energy Index	Aug 2006
Ludlow Energy Small Cap Index	Aug 2007
Merrill Lynch Energy Efficiency Index	Aug 2007
Merrill Lynch Renewable Energy Index	Mar 2006
Merriman Next Generation Energy Index	May 2006
Societe Generale World Alternative Energy Total Return Index	Aug 2006
Standard & Poor's Global Clean Energy Index	Feb 2007
WilderHill Clean Energy Index	Aug 2004
WilderHill New Energy Global Innovation Index	Jan 2006

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