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<http://etfdb.com/2010/rare-earth-metal-shortage-could-sink-these-three-etfs/>

Rare Earth Metal Shortage Could Sink These Three ETFs

While most investors are relatively familiar with metals such as gold and copper, few know anything about an increasingly vital group of resources known as “rare earths.” As the name suggests, these metals are very scarce, but are needed for a variety of modern technologies ranging from alternative fuels to consumer electronics to defense and security systems. As demand for these modern goods has surged in recent years, it has put a strain on existing rare earth supplies. Historically, the chief supplier of rare earth metals to the U.S. was China, but that arrangement has been called into question as the Asian superpower continues to expand and Beijing has decided to keep more home grown resources within the confines of the Great Wall.

A huge step in this policy came earlier this month as China’s Ministry of Commerce announced that foreign shipments of rare earth metals came in at just less than 8 metric tonnes, a cut of over 72%. This huge drop is likely to drive up prices for a variety of goods, and could lead to supply shortages in the very near future. The United States Magnetic Materials Association (USMMA), which represents high-performance magnet producers and suppliers, warned of “[impending shortages](#)” of rare earth materials needed to support domestic manufacturing, noting that China’s shrinking export quota “should serve as a huge red flag for U.S. government officials studying this issue.”

Since the metals are so crucial to a variety of industries, a shortage could ripple throughout the U.S. economy, hitting rare earth metal-dependent sectors particularly hard. Below, we profile three ETFs to watch as this drama plays out.

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PowerShares WilderHill Clean Energy Portfolio ([PBW](#))

Many of the newest green innovations have been promoted as clean alternatives to fossil fuels. However, these “clean” technologies require massive amounts of metals and extensive mining operations to supply complex technologies [also see the [Definitive Guide To Clean Energy ETFs](#)]. PBW tracks the [WilderHill](#)

Clean Energy Index, a benchmark designed to focus on greener and generally renewable sources of energy and technologies that facilitate cleaner energy, two sectors that are susceptible to the ups and downs of the rare earth metals market.

PBW invests in 55 securities in total and has heavy weightings in LED component maker Rubicon Technology (3.5%), OLED pioneer Universal Display Corp (3.5%), and solar cell maker ReneSola (2.8%). The fund also offers good levels of diversification away from giant cap securities, holding just over two-thirds of its assets in small and micro cap companies. The fund is down about 10% over the past year and has lost more than 20% so far in 2010. PBW could be in for even more pain in the near future if nothing is done to rectify the rare earth metal shortage. "If the United States is to become a leader in clean energy technology, it needs a reliable domestic rare earths supply chain," USMMA president Ed Richardson said.

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