



How to Invest in Water ETFs

With a growing water shortage, global investors are beginning to look at where to invest.

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Water. We drink it, we swim in it and it's vital to human life. Despite being the [world's most precious resource](#), many people are only beginning to realize it's becoming scarce.

Think back to Kevin Costner's 1995 post-apocalyptic film, "Waterworld," where the polar ice caps had melted and earth was covered by the rising seas. Drifter pirate-types searched for land and fresh water.

Many laughed off the science fiction. According to a recent report by the United Nations, the world will only have 60 percent of the water it needs by 2030 without significant global policy change. Now as governments and businesses — even French wine investors — are seeking higher ground with a [warming climate](#) and rising sea levels, many still haven't considered investing in water.

"It doesn't seem to be getting the attention it deserves," says Deborah Fox, CEO and founder of Essential Planning Services, a wealth management firm in San Diego. "Water is an essential commodity and resource for the world. There are no substitutes. You can't manufacture something that can compete with it. It's potentially a great investing opportunity because it hasn't been discovered yet."

Where is the industry going? With an [investing](#) environment that has offered low yields, lower expectations of returns and an active Federal Reserve, many investors are looking for ways to access alternative investments and have used commodities to hedge their funds. The emergence of water-specific exchange-traded funds continues the trend of commodities being viewed as a dedicated asset class within portfolios, says Russell Robertson, owner of Alidade Wealth Partners, a wealth management firm in Atlanta.

This trend started with oil, gold and broad [commodities](#), and has since expanded into infrastructure, natural resources and individual resources such as water. Many broad commodities funds, such as the like PowerShares DB Commodity Index Tracking ETF (ticker: [DBC](#)) with its basket of investments in oil, gas, sugar, corn and soybeans, don't contain a water component.

Most commodity-focused ETFs hold futures contracts, but there isn't a future market on water yet. That leaves investors to focus on equities that are involved in this space.

What to consider. Unlike investing in gold, water-focused ETFs don't track the price of water, says Cooper Mitchell, investment advisor representative for Dane Financial in Springfield, Missouri. Instead, water ETFs invest in companies that create products or build infrastructure to purify or conserve water, or embrace new technologies within the water industry's wastewater, desalination and potable water sectors.

"You're essentially investing in the idea that water is becoming scarce," Mitchell says. "By investing in an ETF, you're saying, 'I believe the industry is going to do well, but I don't know which company is going to do well so I'm going to invest in all of them to diversify my risk.'"

There's also an unknown any time investors get involved in the actions of individual countries where large-scale government contracts are awarded to private companies. "It may be hard to see where the profits of the private companies come in," Robertson says.

Still, he says, "the issues of water access and management tend to be more acute overseas than they are in the U.S., so it probably makes sense to invest in a globally focused water ETF."

Where to look. Equity-income ETFs are traded like [stocks](#), but are similar to mutual funds, thanks to the variety of stocks that are comprised within it. Investors should start by comparing the gross expense ratios (the lower the better) and past performance relative to others in the group and rate of return (the higher the better).

[See: [8 Soaring Stocks That Suffered the Big Bounce.](#)]

Industry experts point to First Trust ISE Water Index Fund ([FIW](#)), which has 35 holdings in small- and mid-capitalization markets and includes assets in Energy Recovery ([ERII](#)), a company focused on desalination, California Water Service Group ([CWT](#)), a San Jose, California-based water utility and Companhia De Saneamento Basico Do ([SBS](#)), a water and sewage service provider in Sao Paulo, Brazil. "They only have a 17 percent turnover of the stocks they are holding within the ETF," Fox says. "So they are hugging their index more traditionally."

FIW has a relatively small expense ratio of 0.57 percent, or \$57 annually per \$10,000 invested, a history of good returns and a small dividend yield of 0.63 percent that brings investors a little income. "This one far out exceeds everyone else," Mitchell says.

Another ETF is the Guggenheim S&P Global Water Index ETF ([CGW](#)). With an expense ratio of 0.64 percent, this CGW invests in companies across all capitalizations and includes 49 securities. Top holdings include American Water Works Co. ([AWK](#)), Xylem ([XYL](#)) and Aqua America ([WTR](#)).

Expense ratios in water ETFs are higher than a typical equity ETF because this is a niche investment and doesn't have liquidity as other assets. Investors could be looking for wider spreads when trading, so it is best if you're going to invest in water as an asset allocation to combine it with your overall portfolio and have it make up no more than 5 percent, Robertson says.

Water ETFs may be the best option. When wanting to invest in water-focused companies, Fox says she initially looked at investing in [mutual funds](#) such as Calvert Global Water Fund ([CFWAX](#)) and AllianzGI Global Water Fund ([AWTAX](#)), but didn't like the high expense ratios of 1.82 percent and 1.44 percent, respectively.

"The thing we didn't like about the mutual funds was the expense charges are pricey," Fox says. "When you are getting into specialty funds and something new it's not unusual, but it's an immediate drag on performance." Fox says she also didn't like Calvert's 100 percent turnover rate of all the stocks in the fund, which is why she turned to water ETFs.

Even though water ETFs aren't widely available yet, Mitchell says that will likely change.

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"I think investing in water and water ETFs will become more popular in the future," Mitchell says. "You want to invest in things that aren't at their peak. Now's a pretty good time to get in it, because it's not as popular as it will get."

Top-Performing Water Utilities

Stock	Price	1-Year Return
Middlesex Water Co MSEX	\$39.48	▲76.69%
Connecticut Water Service Inc CTWS	\$53.26	▲60.74%
American Water Works Co Inc AWK	\$78.15	▲58.20%
Companhia de Saneamento Basico do Estado de Sao Paulo SBS	\$8.22	▲57.12%
Artesian Resources Corp ARTNA	\$31.04	▲49.19%
California Water Service Group CWT	\$32.19	▲40.83%
York Water Co YORW	\$29.74	▲37.33%
Aqua America Inc WTR	\$33.67	▲36%
SJW Corp SJW	\$37.26	▲24.40%
American States Water Co AWR	\$41.37	▲12.26%

Stock information correct as of June 22, 2016, 9:25 a.m.

[Or see U.S. News' list of Water Utilities stocks »](#)



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