

The Best & Worst Consumer Staples Sector ETFs

Structural Integrity – and – Investment Merits

Trust

We deliver the whole truth by incorporating critical data from the Financial Footnotes and MD&A that other firms miss.

Performance

The value and success of our ratings are unrivaled. Click here for proof.

More Reports

Click here and enter a ticker to buy more of our reports.

- **Select Sector SPDR-Consumer Staples (XLP) is our top pick for Consumer Staples sector ETFs.**
- **We rate the investment merit of the top 5 Consumer Staples sector ETFs.**
- **We benchmark the individual ETFs against the entire Consumer Staples sector and the S&P 500.**
- **This research enables investors to analyze ETFs and mutual funds as they do stocks.**
- **We offer custom and enhanced ETFs based on our top-ranked stock rating system.**
- **Our ETF analysis is based on aggregation of models for companies held by the fund and weighted according to the fund's allocations to those companies, excluding cash.**



Figure 1: The Investment Merit of the Top Consumer Staples Sector ETFs

Fund/Benchmark	% of Fund Allocated to Each Rating					Overall Fund Rating
	Very Attractive	Attractive	Neutral	Dangerous	Very Dangerous	
XLP	28.6%	33.2%	34.0%	0.2%	0.8%	Very Attractive
Overall Sector	28.8%	28.8%	38.5%	2.9%	1.1%	Attractive
VDC	24.1%	30.2%	38.8%	3.3%	1.2%	Attractive
PBJ	15.3%	31.6%	36.5%	10.5%	2.9%	Neutral
PSCC	5.6%	28.4%	11.2%	31.7%	20.3%	Dangerous

* % may not add up to 100% due to the exclusion of cash and holdings not in our coverage universe.

Sources: New Constructs, LLC and company filings

Methodology

Our Risk/Reward ratings have a solid track record of outperformance for investors.

[Barron's ranked us #1 for stock-picking.](#)

Custom ETFs: [Contact us](#) for best-of-breed and enhanced ETF products for a particular sector or index.

This report offers recommendations on Consumer Staples sector ETFs and benchmarks for (1) investors considering buying Consumer Staples sector ETFs and for (2) comparing individual ETFs to the Consumer Staples sector and the S&P 500. Our analysis is based on aggregating results from our models on each of the companies included in every ETF and the overall sector (123 companies) based on data as of April 20th, 2011. We aggregate results for the ETFs in the same way the ETFs are designed. Our goal is to empower investors to analyze ETFs in the same way they analyze individual stocks.

To make an informed ETF investment, investors must consider:

- 1) **Structural Integrity:** ability of an investment vehicle to fulfill its stated objective. We use [XTF, an ETF research firm](#), to find the top 5 Consumer Staples sector ETFs with the best structural integrity rating.
- 2) **Investment Merit:** investment quality of the ETF based on its holdings. We apply our stock rating system to each ETF's holdings to determine its investment merit.

Given the [success](#) of our rating system for individual stocks, we believe its application to groups of stocks (i.e. ETFs and funds) helps investors make more informed ETF and mutual fund buying decisions. Barron's featured our unique ETF research in "[The Danger Within](#)".

Recommendations Summary

If you require exposure to the Consumer Staples sector:

We recommend investors buy Select Sector SPDR-Consumer Staples (XLP). XLP allocates a substantial amount of its value to Attractive-or-better-rated stocks, earns a top XTF rating of 9, and earns a Very Attractive Overall Risk/Reward Rating.

If you require exposure to any other sector:

We recommend investors review our [Sector ETF Roadmap](#) report or our [9 other sector ETF reports](#), beginning with our Consumer Discretionary and Health Care Sector reports, which are the only other sectors to earn an Attractive Overall Risk/Reward rating.

If you require exposure to a Consumer Staples ETF or an index ETF:

We recommend investors buy the following Consumer Staples ETFs over an S&P 500 ETF: XLP, VDC, PSL, and PBJ.

If you are looking for exposure to the best stocks in the market:

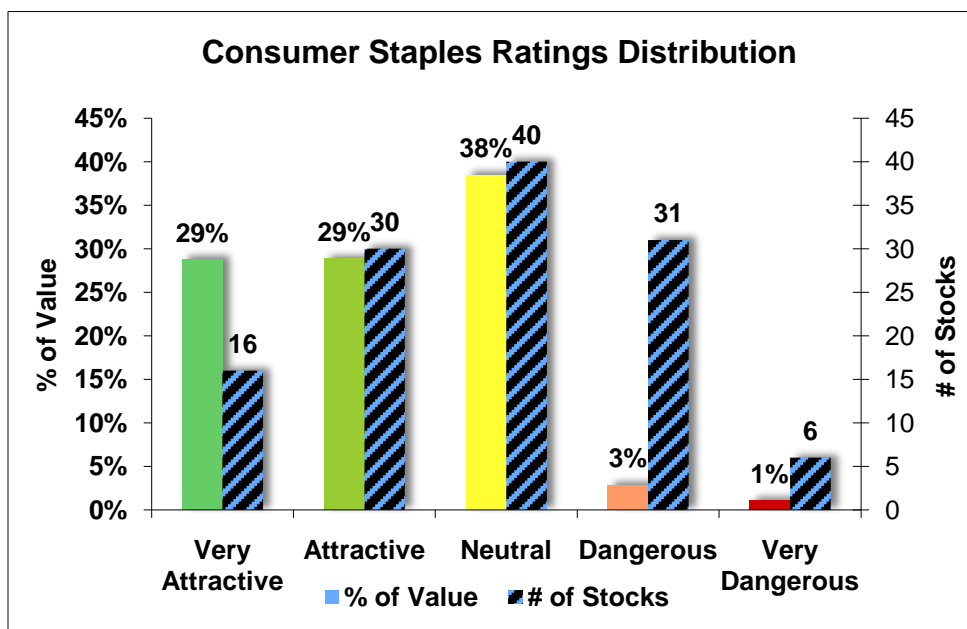
We recommend you buy our [Most Attractive Stocks](#).

Recommendations Detail

Click [here](#) for more info on risk/reward rating system and our approach to equity research.

If you want to be in a sector ETF, the Consumer Staples, Consumer Discretionary and Health Care sectors are the best places to shop due to their Attractive Overall Risk/Reward ratings. Figure 2 shows how the Consumer Staples sector's stocks and the market value attributed to them stack up under the microscope of our risk/reward rating system.

Figure 2: Consumer Staples Sector – Allocation & Holdings by Risk/Reward Rating



Sources: New Constructs, LLC and company filings

The Consumer Staples sector has only 4% of its value invested in Dangerous-or-worse-rated stocks and 58% of its value invested in Attractive-or-better-rated stocks. The Consumer Staples sector's heavy allocation to Attractive-or-better-rated stocks and its low weighting of Dangerous-or-worse-rated stocks create large opportunities for Attractive-or-better-rated ETFs.

The key takeaway is that the Consumer Staples sector offers both good and poor investment opportunities. The value of each ETF is derived from its constituents, so ETFs like XLP that overweight Attractive-or-better-rated stocks are great investment opportunities while ETFs like PSCC that overweight Neutral-or-worse-rated stocks should be avoided or sold short.

When analyzing the Consumer Staples sector ETFs, we started by identifying those ETFs with acceptable structural integrity as measured by XTF. We chose the 5 Consumer Staples sector ETFs with the highest XTF ratings where we cover at least 90% of the value of the ETF. For details on the XTF structural integrity ratings as well as the holdings and weightings for each ETF, see XTF.com.

Figure 3: Consumer Staples ETFs With Acceptable Structural Integrity

TICKER	ETF Description	# of Holdings *	XTF RATING
XLP	Select Sector SPDR-Consumer Staples	41	9
VDC	Vanguard Consumer Staples Index Fund	108	8.7
PBJ	PowerShares Dynamic Food and Beverage	30	6
PSCC	PowerShares S&P SmallCap Cons. Staples Portfolio	22	5.9
PSL	PowerShares Dynamic Consumer Staples Sector	60	5.6

* # of Holdings excludes cash

Sources: New Constructs, LLC; XTF and company filings

[Contact us](#) for details on our ratings for any stocks in any equity ETF.

Figure 3 clearly shows that not all Consumer Staples ETFs are made the same. Different ETFs have meaningfully different numbers of holdings and, therefore, different allocations to holdings. Given the differences in holdings and allocations, these ETFs will likely perform quite differently.

After determining the structural integrity, we analyzed the investment merit of each ETF based on how it allocates value to each stock it holds. Figure 4 shows how the 5 Consumer Staples sector ETFs stack up versus each other, the overall sector and the S&P 500 based on their Overall Risk/Reward ratings and the allocation of their holdings by rating.

Figure 4: Investment Merit Based on Holdings and Allocations

Fund/Benchmark	% of Fund Allocated to Each Rating					Overall Fund Rating
	Very Attractive	Attractive	Neutral	Dangerous	Very Dangerous	
XLP	28.6%	33.2%	34.0%	0.2%	0.8%	Very Attractive
Overall Sector	28.8%	28.8%	38.5%	2.9%	1.1%	Attractive
VDC	24.1%	30.2%	38.8%	3.3%	1.2%	Attractive
PSL	12.7%	34.7%	38.5%	6.9%	1.4%	Attractive
PBJ	15.3%	31.6%	36.5%	10.5%	2.9%	Neutral
S&P 500	21.2%	20.1%	35.0%	18.3%	5.5%	Neutral
PSCC	5.6%	28.4%	11.2%	31.7%	20.3%	Dangerous

* % may not add up to 100% due to the exclusion of cash and holdings not in our coverage universe.

Sources: New Constructs, LLC; XTF and company filings

Attractive ETFs:

XLP, VDC, and PSL – these 3 ETFs earn an Attractive-or-better Overall Risk/Reward rating and therefore, they are the only Consumer Staples ETFs we recommend. Our top pick from this group is XLP.

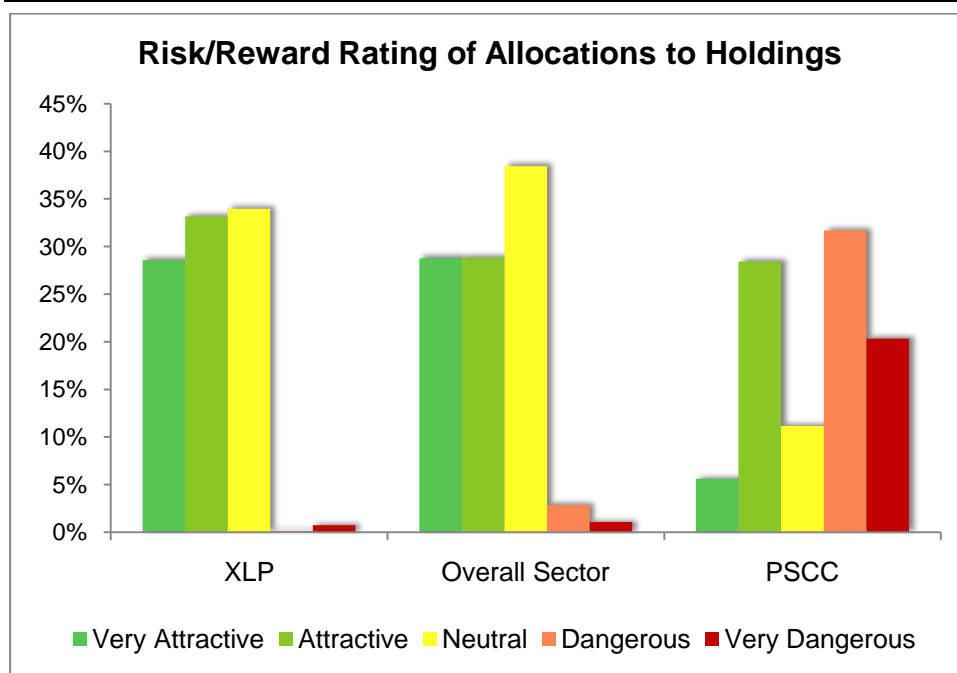
Neutral ETFs:

PBJ allocates its value in a way that earns it a Neutral Overall Risk/Reward rating. We recommend investors buy the Very Attractive and Attractive stocks in this sector before buying any of the Consumer Staples ETFs except those we recommend. [Contact us](#) for the full list of 46 Consumer Staples companies that earn an Attractive-or-better Overall Risk/Reward rating.

Dangerous ETFs:

We recommend investors avoid or sell short PSCC because of its Dangerous Overall Risk/Reward rating. Figure 5 contrasts the difference in investment merit between XLP, PSCC, and the overall sector.

Figure 5: Very Attractive and Dangerous Consumer Staples Sector ETFs



Sources: New Constructs, LLC; XTF and company filings

Benchmark Comparisons

Sector Benchmark

XLP has similar ratings to the overall sector. XLP has a market-implied Growth Appreciation Period (GAP) of only 2 years compared to the overall sector's GAP of 5 years. XLP's shorter GAP makes it a more attractive investment than the overall sector.

Figure 6: XLP – Risk/Reward Rating

Overall Risk/Reward Rating	Quality of Earnings		Valuation		
	Econ v Reported Earnings (bn)	ROIC	FCF Yield	Price-to-EBV	GAP (yrs)
Very Dangerous	Misleading Trend	Bottom Quintile	<-5%	>3.5 or -1<0	More than 50
Dangerous	False Positive	4th Quintile	-5%<-1%	2.4<3.5 or <-1	20<50
Neutral	Neutral EE	3rd Quintile	-1%<3%	1.6<2.4	10<20
Attractive	Positive EE	2nd Quintile	3%<10%	1.1<1.6	3<10
Very Attractive	Rising EE	Top Quintile	>10%	0<1.1	Less than 3
Market-Weighted Avg	\$3.24 / \$6.04	18.0%	1.7%	0.7	2

Sources: New Constructs, LLC and company filings

Figure 7: Consumer Staples Sector – Risk/Reward Rating

Overall Risk/Reward Score	Quality of Earnings		Valuation		
	Econ v Reported EPS	ROIC	FCF Yield	Price-to-EBV	GAP (yrs)
Very Dangerous	Misleading Trend	Bottom Quintile	<-5%	>3.5 or -1<0	More than 50
Dangerous	False Positive	4th Quintile	-5%<-1%	2.4<3.5 or <-1	20<50
Neutral	Neutral EE	3rd Quintile	-1%<3%	1.6<2.4	10<20
Attractive	Positive EE	2nd Quintile	3%<10%	1.1<1.6	3<10
Very Attractive	Rising EE	Top Quintile	>10%	0<1.1	Less than 3
Market-Weighted Avg	\$2.05 / \$3.99	17.8%	0.4%	0.7	5
Median	\$0.49 / \$1.65	7.5%	3.5%	1.3	4

Sources: New Constructs, LLC and company filings

XLP more effectively allocates capital than the overall Consumer Staples sector. Per [Figure 4](#) above, XLP allocates 62% of its value to Attractive-or-better-rated stocks while the sector allocates 58%. XLP also allocates less than 1% of its value toward Dangerous-or-worse-rated stocks compared to the sector's Dangerous-or-worse weightings of 4%.

For explanation and details behind our risk/reward rating system, see one of our Company Valuation reports, which are available for free [here](#).

Market Benchmark

XLP outperforms the S&P 500 in valuation ratings. XLP has a Price-to-EBV of only 0.7, earning it a Very Attractive rating, and a GAP of 2 years compared to the S&P 500's Price-to-EBV of 1.5 and GAP of 24 years.

XLP and the S&P 500 have similar quality of earnings ratings.

Figure 8: XLP – Risk/Reward Rating

Overall Risk/Reward Rating	Quality of Earnings		Valuation		
	Econ v Reported Earnings (bn)	ROIC	FCF Yield	Price-to-EBV	GAP (yrs)
Very Dangerous	Misleading Trend	Bottom Quintile	<-5%	>3.5 or -1<0	More than 50
Dangerous	False Positive	4th Quintile	-5%<-1%	2.4<3.5 or <-1	20<50
Neutral	Neutral EE	3rd Quintile	-1%<3%	1.6<2.4	10<20
Attractive	Positive EE	2nd Quintile	3%<10%	1.1<1.6	3<10
Very Attractive	Rising EE	Top Quintile	>10%	0<1.1	Less than 3
Market-Weighted Avg	\$3.24 / \$6.04	18.0%	1.7%	0.7	2

Sources: New Constructs, LLC and company filings

Figure 9: S&P 500 – Risk/Reward Rating

Overall Risk/Reward Score	Quality of Earnings		Valuation		
	Econ v Reported EPS	ROIC	FCF Yield	Price-to-EBV	GAP (yrs)
Very Dangerous	Misleading Trend	Bottom Quintile	<-5%	>3.5 or -1<0	More than 50
Dangerous	False Positive	4th Quintile	-5%<-1%	2.4<3.5 or <-1	20<50
Neutral	Neutral EE	3rd Quintile	-1%<3%	1.6<2.4	10<20
Attractive	Positive EE	2nd Quintile	3%<10%	1.1<1.6	3<10
Very Attractive	Rising EE	Top Quintile	>10%	0<1.1	Less than 3
Market-Weighted Avg	\$0.74 / \$4.06	18.3%	2.4%	1.5	24
Median	\$0.26 / \$2.24	7.9%	3.2%	1.5	12

Sources: New Constructs, LLC and company filings

XLP allocates capital more effectively than the S&P 500. Per [Figure 4](#) above, XLP allocates 62% of its value to Attractive-or-better-rated stocks while the S&P 500 allocates 41%. XLP also allocates less than 1% of its value toward Dangerous-or-worse-rated stocks compared to the S&P 500's Dangerous-or-worse weightings of 24%.

Appendix: Risk/Reward Rating System

Our Risk/Reward Rating System assigns a rating to every stock we cover according to what we believe are the 5 most important criteria for assessing the risk versus reward of stocks. See table that follows for details.

Overall Risk/Reward Ranking	The Overall Risk/Reward Ranking provides a final rating based on the equal-weighted average rating of each criterion.
Very Dangerous	FCF Yield is not included in the average.
Dangerous	FCF Yield is not included in the average.
Neutral	All criteria are equal-weighted in the average calculation.
Attractive	All criteria are equal-weighted in the average calculation.
Very Attractive	All criteria are equal-weighted in the average calculation.

Economic vs Reported Earnings	Rates stocks based on how their Economic Earnings compare to their Reported Earnings. Values based on Latest Fiscal Year.
Very Dangerous	Negative and declining Economic Earnings despite positive and rising Reported Earnings
Dangerous	Same as above except Reported Earnings are not rising or Reported Earnings are not positive
Neutral	Negative Economic and Reported Earnings
Attractive	Economic Earnings are positive
Very Attractive	Economic Earnings are positive and rising

Return on Invested Capital (ROIC)	Rates stocks based on their ROIC. Values based on Latest Fiscal Year.
Bottom Quintile	Very Dangerous = the bottom 20% of Russell 1000 companies
4th Quintile	Dangerous = the bottom 40% of Russell 1000 companies
3rd Quintile	Neutral = the middle 20% of Russell 1000 companies
2nd Quintile	Attractive = the top 40% of Russell 1000 companies
Top Quintile	Very Attractive = the top 20% of Russell 1000 companies

FCF Yield	Rates stocks based on their Free Cash Flow Yield. Values based on Latest Closing Stock price and Latest Fiscal Year.
<-5%	Very Dangerous = less than or equal to -5%
-5%<-1%	Dangerous = more than -5% but less than or equal to -1%
-1%<3%	Neutral = more than -1% but less than or equal to +3%
3%<10%	Attractive = more than +3% but less than or equal to +10%
>10%	Very Attractive = more than +10%

Price-to-EBV Ratio	Rates stocks based on their Price-to-Economic Book Value Ratio. Values based on Latest Closing Stock price and Latest Fiscal Year.
>3.5 or -1>0	Very Dangerous = greater than or equal to 3.5 or less than 0 but greater than -1
2.4>3.5 or <-1	Dangerous = greater than or equal to 2.4 but less than 3.5 and less than or equal to -1
1.6>2.4	Neutral = greater than or equal to 1.6 but less than 2.4
1.1>1.6	Attractive = greater than or equal to 1.1 but less than 1.6
0>1.1	Very Attractive = greater than or equal to 0 but less than 1.1

Growth Appreciation Period (yrs)	Rates stocks based on their Market-Implied Growth Appreciation Period. Values based on Latest Closing Stock price and Default Forecast Scenario.
>50	Very Dangerous = greater than or equal to 50 years
20>50	Dangerous = at least 20 years but less than 50
10>20	Neutral = at least 10 years but less than 20
3>10	Attractive = at least 3 years but less than 10
0>3	Very Attractive = at least 0 years but less than 3

New Constructs® – Profile

How New Constructs Creates Value for Clients

1. **Superior Recommendations** – Our [stock picks](#) consistently outperform. See our track record in our [stock-picking accolades](#) and [Proof Is In Performance](#) reports.
2. **More Accurate Research** – Our [patented Research Platform](#) for [reversing accounting distortions](#) and [discounted cash flow analysis](#) leverages better data to deliver smarter research.
3. **Time Savings** – We check the fine print in thousands of corporate filings so you don't have to. As reported by [Barron's](#), our expertise in analyzing SEC filings delivers [Hidden Gems and Red Flags](#) that drive long-term stock-picking success.
4. **Transparency** – We are proud to share the results of our analysis of over 50,000 10Ks. See the [Corporate Disclosure Transgressions](#) report we provided the SEC. Our reports detail all data and assumptions. Company Models enable users to change them.
5. **Objectivity** – New Constructs is an independent research firm, not tied to Wall Street or investment banking services. Our models are driven by comprehensive high-quality data not stories. See our [presentation to the Senate Banking Committee](#), the SEC and many others in DC.

Our Philosophy About Research

Accounting data is not designed for equity investors, but for debt investors. [Accounting data must be translated into economic earnings](#) to understand the profitability and valuation relevant to equity investors. Respected investors (e.g. Adam Smith, Warren Buffett and Ben Graham) have repeatedly emphasized that accounting results should not be used to value stocks. [Economic earnings](#) are what matter because they are:

1. Based on the complete set of financial information available.
2. Standard for all companies.
3. A more accurate representation of the true underlying cash flows of the business.

Additional Information

Incorporated in July 2002, [New Constructs](#) is an independent publisher of investment research that provides clients with consulting, advisory and research services. We specialize in quality-of-earnings, forensic accounting and discounted cash flow valuation analyses for all U.S. public companies. We translate accounting data from 10Ks into economic financial statements, i.e. [NOPAT](#), [Invested Capital](#), and [WACC](#), to create [economic earnings models](#), which are necessary to understand the true profitability and valuation of companies. Visit the [Free Archive](#) to download samples of our research. New Constructs is a [BBB accredited](#) business and a member of the [Investorside Research Association](#).

DISCLOSURES

New Constructs®, LLC (together with any subsidiaries and/or affiliates, "New Constructs") is an independent organization with no management ties to the companies it covers. None of the members of New Constructs' management team or the management team of any New Constructs' affiliate holds a seat on the Board of Directors of any of the companies New Constructs covers. New Constructs does not perform any investment or merchant banking functions and does not operate a trading desk.

New Constructs' Stock Ownership Policy prevents any of its employees or managers from engaging in Insider Trading and restricts any trading whereby an employee may exploit inside information regarding our stock research. In addition, employees and managers of the company are bound by a code of ethics that restricts them from purchasing or selling a security that they know or should have known was under consideration for inclusion in a New Constructs report nor may they purchase or sell a security for the first 15 days after New Constructs issues a report on that security.

New Constructs is affiliated with Novo Capital Management, LLC, the general partner of a hedge fund. At any particular time, New Constructs' research recommendations may not coincide with the hedge fund's holdings. However, in no event will the hedge fund receive any research information or recommendations in advance of the information that New Constructs provides to its other clients.

DISCLAIMERS

The information and opinions presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or solicitation of an offer to buy or sell securities or other financial instruments. New Constructs has not taken any steps to ensure that the securities referred to in this report are suitable for any particular investor and nothing in this report constitutes investment, legal, accounting or tax advice. This report includes general information that does not take into account your individual circumstance, financial situation or needs, nor does it represent a personal recommendation to you. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about any such investments or investment services.

Information and opinions presented in this report have been obtained or derived from sources believed by New Constructs to be reliable, but New Constructs makes no representation as to their accuracy, authority, usefulness, reliability, timeliness or completeness. New Constructs accepts no liability for loss arising from the use of the information presented in this report, and New Constructs makes no warranty as to results that may be obtained from the information presented in this report. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information and opinions contained in this report reflect a judgment at its original date of publication by New Constructs and are subject to change without notice. New Constructs may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and New Constructs is under no obligation to insure that such other reports are brought to the attention of any recipient of this report.

New Constructs' reports are intended for distribution to its professional and institutional investor customers. Recipients who are not professionals or institutional investor customers of New Constructs should seek the advice of their independent financial advisor prior to making any investment decision or for any necessary explanation of its contents.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would be subject New Constructs to any registration or licensing requirement within such jurisdiction.

This report may provide the addresses of websites. Except to the extent to which the report refers to New Constructs own website material, New Constructs has not reviewed the linked site and takes no responsibility for the content therein. Such address or hyperlink (including addresses or hyperlinks to New Constructs own website material) is provided solely for your convenience and the information and content of the linked site do not in any way form part of this report. Accessing such websites or following such hyperlink through this report shall be at your own risk.

All material in this report is the property of, and under copyright, of New Constructs. None of the contents, nor any copy of it, may be altered in any way, copied, or distributed or transmitted to any other party without the prior express written consent of New Constructs. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of New Constructs.

Copyright New Constructs, LLC 2003 through the present date. All rights reserved.