

Sector Allocation Roadmap

Only Two Attractive Sectors

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.

- Investors looking to buy a sector fund should first consider funds in the Consumer Staples and Information Technology sectors.
- The quality of individual funds varies greatly. See our [sector fund reports](#) for predictive ratings on ETFs and mutual funds in each sector.
- The best and worst funds in each sector are shown in figures 14 and 15. Get our rankings and ratings for all ETFs and mutual funds by category with our free [fund screener](#).
- Even Dangerous-rated sectors can have Attractive-rated sector funds by allocating to the best stocks in the sector.
- We offer predictive ratings on ETFs, mutual funds, or custom portfolios.
- This report shows the percentage of each sector made up of Very Attractive-rated stocks, as well as all other ratings.



Figure 1: Summary of Overall Risk/Reward Ratings – All Sectors as of January 19, 2012

Sector	Overall Rating	Quality of Earnings		Valuation		
		Econ v Reported	ROIC	FCF Yield	Price-to-EBV	GAP
Financials	Dangerous	Neutral EE	4th Quintile	Dangerous	Dangerous	Very Dangerous
Telecom	Dangerous	False Positive	4th Quintile	Attractive	Very Dangerous	Neutral
Utilities	Dangerous	False Positive	Bottom Quintile	Neutral	Neutral	Neutral
Energy	Dangerous	Positive EE	3rd Quintile	Dangerous	Dangerous	Dangerous
Industrials	Neutral	Positive EE	3rd Quintile	Neutral	Neutral	Dangerous
Materials	Neutral	Positive EE	2nd Quintile	Neutral	Neutral	Dangerous
Consumer Disc	Neutral	Positive EE	2nd Quintile	Attractive	Neutral	Dangerous
Health Care	Neutral	Positive EE	2nd Quintile	Attractive	Neutral	Neutral
Cons. Staples	Attractive	Positive EE	Top Quintile	Neutral	Attractive	Attractive
Info Tech	Attractive	Rising EE	Top Quintile	Attractive	Neutral	Neutral

Index	Overall Rating	Econ v Reported	ROIC	FCF Yield	Price-to-EBV	GAP
S&P 500	Neutral	Positive EE	Top Quintile	Neutral	Neutral	Dangerous
Russell 2000	Dangerous	Neutral EE	3rd Quintile	Dangerous	Very Dangerous	Very Dangerous

Source: New Constructs, LLC and company filings

Our [Stock 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.

Methodology

Our sector analyses are based on the market-weighted aggregation of our models and [stock ratings](#) on the 3000+ companies we cover in each sector, the S&P 500, and the Russell 2000 as of January 19th, 2012.¹

Our bottom-up approach to stocks drives our bottom-up research on sectors, indices, and funds.

This report provides clients with benchmarks from the S&P 500, Russell 2000, and all Sectors to aid in the analysis of individual companies as well as the major sector and index ETFs and mutual funds.

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

Recommendation

We recommend investors buy funds from the Consumer Staples and Information Technology sectors, though any sector can have Attractive-or-better-rated funds based on their holdings. See Figures 4 through 13 for a detailed breakdown of ratings distributions by sector, or see our individual sector fund reports for ETF and mutual fund recommendations by sector.

Please contact us if you would like access to an ETF of only the Very Attractive and Attractive-rated stocks for a particular sector or index.

We offer custom aggregation reports with Overall Risk/Reward Ratings for any ETF, mutual fund, or portfolio. We also offer recommendations to improve your portfolio's Overall Risk/Reward Rating by overweighting stocks with Attractive ratings and underweighting stocks with Dangerous ratings. Contact research@newconstructs.com for more information.

¹ For an explanation of the merits of using market-weighted averages in aggregation analysis instead of aggregate values, see Jeremy Siegel's WSJ article "[The S&P Gets Its Earnings Wrong.](#)"

Quality of Earnings Ratings by Sector

Figure 2 shows the quality of earnings component ratings for all sectors and the indices.

Figure 2: Quality of Earnings Ratings – All Sectors as of January 19, 2012

Sector	Overall Rating	Quality of Earnings	
		Econ v Reported	ROIC
Financials	Dangerous	Neutral EE	4th Quintile
Telecom	Dangerous	False Positive	4th Quintile
Utilities	Dangerous	False Positive	Bottom Quintile
Energy	Dangerous	Positive EE	3rd Quintile
Industrials	Neutral	Positive EE	3rd Quintile
Materials	Neutral	Positive EE	2nd Quintile
Consumer Disc	Neutral	Positive EE	2nd Quintile
Health Care	Neutral	Positive EE	2nd Quintile
Cons. Staples	Attractive	Positive EE	Top Quintile
Info Tech	Attractive	Rising EE	Top Quintile

Index	Overall Rating	Econ v Reported	ROIC
S&P 500	Neutral	Positive EE	Top Quintile
Russell 2000	Dangerous	Neutral EE	3rd Quintile

Source: New Constructs, LLC and company filings

The Financials sector earns a Neutral rating for Economic v Reported Earnings while the Telecom and Utilities sectors earn a Dangerous rating. They are the only 3 sectors with a Neutral-or-worse rating for Economic v Reported Earnings.

The Utilities sector has a market-weighted ROIC of 4.7%, putting it in the bottom quintile of all Russell 1000 companies. By comparison, ROIC for the Information Technology sector is 56.7%, putting it in the top quintile of all Russell 1000 companies and earning it a Very Attractive ROIC rating.

Our quality of earnings analysis leverages our in-depth research of the financial footnotes for over 3000 companies.

See the individual [sector/index ETF reports](#) for more details on ETFs in each sector/index.

Valuation Ratings by Sector

Figure 3 shows the valuation component ratings for all sectors and the indices.

Figure 3: Valuation Ratings – All Sector ETFs as of January 19, 2012

Sector	Overall Rating	Valuation		
		FCF Yield	Price-to-EBV	GAP
Financials	Dangerous	Dangerous	Dangerous	Very Dangerous
Telecom	Dangerous	Attractive	Very Dangerous	Neutral
Utilities	Dangerous	Neutral	Neutral	Neutral
Energy	Dangerous	Dangerous	Dangerous	Dangerous
Industrials	Neutral	Neutral	Neutral	Dangerous
Materials	Neutral	Neutral	Neutral	Dangerous
Consumer Disc	Neutral	Attractive	Neutral	Dangerous
Health Care	Neutral	Attractive	Neutral	Neutral
Cons. Staples	Attractive	Neutral	Attractive	Attractive
Info Tech	Attractive	Attractive	Neutral	Neutral

Index	Overall Rating	FCF Yield	Price-to-EBV	GAP
S&P 500	Neutral	Neutral	Neutral	Dangerous
Russell 2000	Dangerous	Dangerous	Very Dangerous	Very Dangerous

Source: New Constructs, LLC and company filings

The Consumer Staples sector is the only sector to earn an Attractive GAP rating and one of only two sectors with an Attractive Overall Risk/Reward Rating.

GAP measures the number of years implied by the stock price over which a company must maintain an edge over its current and future competitors. 9 of the 10 sectors have a Neutral-or-worse GAP rating, and both indices' GAPs are rated Neutral or worse.

A Dangerous GAP rating indicates that the sector or index must maintain a competitive advantage for at least 20 years. An Attractive GAP rating indicates that the sector or index must maintain a competitive advantage for less than 10 years. The Consumer Staples sector needs to maintain a competitive advantage for a shorter period of time, making it more likely the sector can meet or beat the market's expectations.

See the individual [sector/index ETF reports](#) for more details on each sector/index.

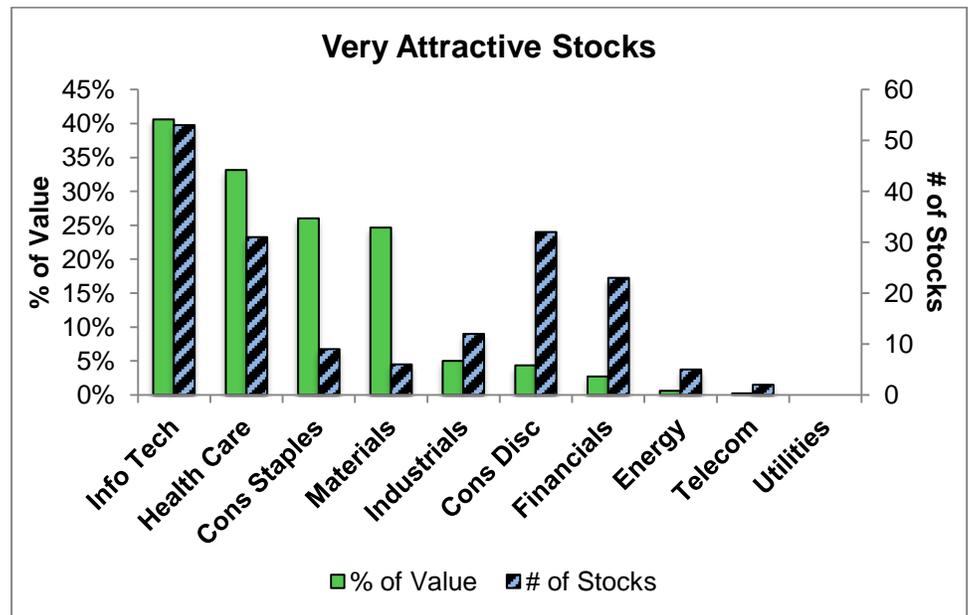
Ratings by Sector

Figure 4 presents a mapping of Very Attractive stocks by sector. The chart shows the percentage of the value of each sector made up of Very Attractive stocks, as well as the total number of Very Attractive stocks in each sector.

58 Very Attractive stocks make up 41% of the Information Technology sector's value and represents 10% of the companies in the sector. The Information Technology sector as a whole has an Attractive rating, but the prevalence of Very Attractive stocks in the sector means that individual Info Tech ETFs can be rated Very Attractive by overweighting those stocks.

Very Attractive stocks make up 20% or more of the value of the Information Technology, Health Care, and Materials sectors, putting them meaningfully above other sectors in terms of value invested in Very Attractive stocks.

Figure 4: Distribution of Very Attractive Stocks by Sector



Source: New Constructs, LLC and company filings

Figure 5 presents the data charted in Figure 4.

Figure 5: Distribution of Very Attractive Stocks by Sector

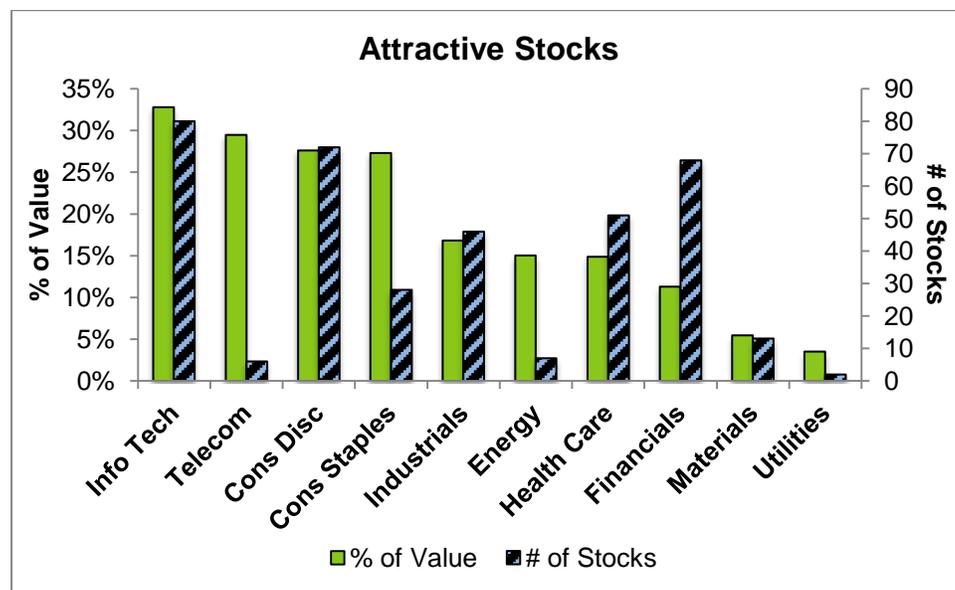
Sector	% of Sector Value	# of Very Attractive Stocks	% of Very Attractive Stocks in Sector
Info Tech	41%	53	10%
Health Care	33%	31	8%
Cons Staples	26%	9	7%
Materials	25%	6	4%
Industrials	5%	12	3%
Cons Disc	4%	32	7%
Financials	3%	23	4%
Energy	1%	5	3%
Telecom	0%	2	5%
Utilities	0%	0	0%

Source: New Constructs, LLC and company filings

Figure 6 presents a mapping of Attractive stocks by sector. The chart shows the percentage of the value of each sector made up of Attractive stocks, as well as the total number of Attractive stocks in each sector.

80 companies in the Information Technology sector have an Attractive rating and make up 33% of the sector's value. The sector has a Attractive rating overall due to its Attractive-or-better-rated holdings.

Figure 6: Distribution of Attractive Stocks by Sector



Source: New Constructs, LLC and company filings

Figure 7 presents the data charted in Figure 6.

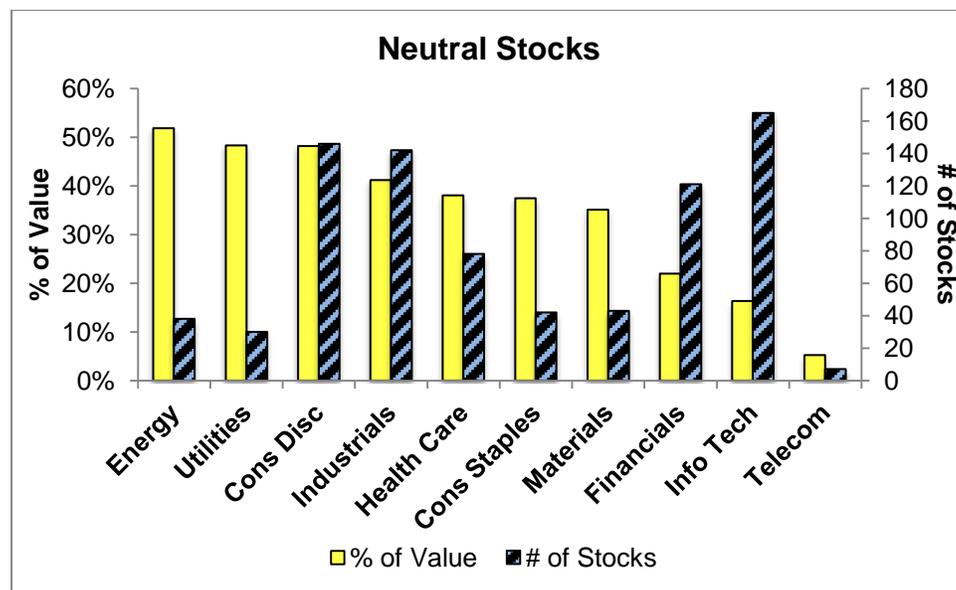
Figure 7: Distribution of Attractive Stocks by Sector

Sector	% of Sector Value	# of Attractive Stocks	% of Attractive Stocks in Sector
Info Tech	33%	80	14%
Telecom	29%	6	14%
Cons Disc	28%	72	15%
Cons Staples	27%	28	22%
Industrials	17%	46	11%
Energy	15%	7	4%
Health Care	15%	51	13%
Financials	11%	68	12%
Materials	5%	13	9%
Utilities	4%	2	2%

Source: New Constructs, LLC and company filings

Figure 8 presents a mapping of Neutral stocks by sector. The chart shows the percentage of the value of each sector made up of Neutral stocks, as well as the total number of Neutral stocks in each sector.

Figure 8: Distribution of Neutral Stocks by Sector



Source: New Constructs, LLC and company filings

Figure 9 presents the data charted in Figure 8.

Figure 9: Distribution of Neutral Stocks by Sector

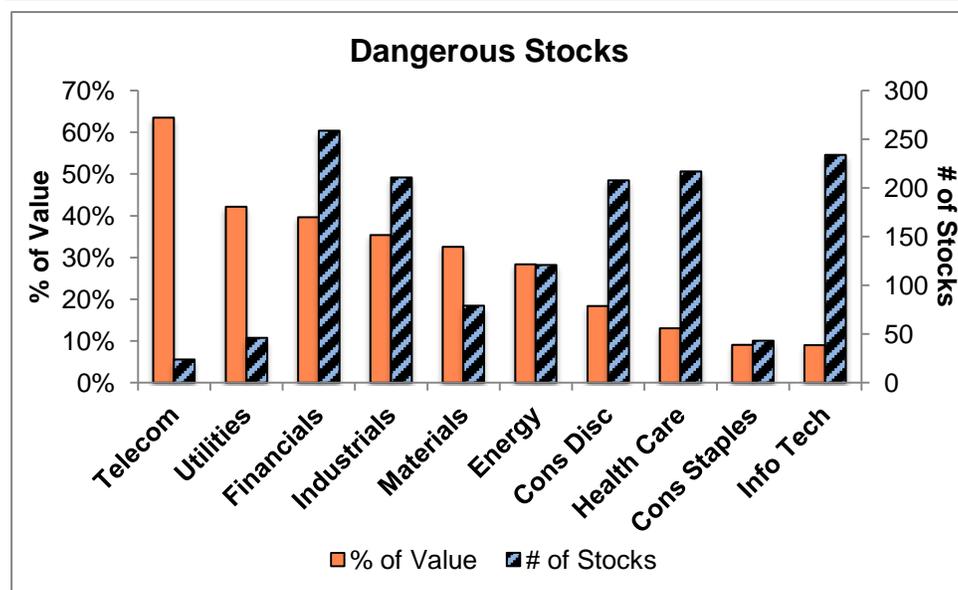
Sector	% of Sector Value	# of Neutral Stocks	% of Neutral Stocks in Sector
Energy	52%	38	20%
Utilities	48%	30	34%
Cons Disc	48%	146	31%
Industrials	41%	142	33%
Health Care	38%	78	20%
Cons Staples	37%	42	34%
Materials	35%	43	29%
Financials	22%	121	22%
Info Tech	16%	165	30%
Telecom	5%	7	16%

Source: New Constructs, LLC and company filings

Figure 10 presents a mapping of Dangerous stocks by sector. The chart shows the percentage of the value of each sector made up of Dangerous stocks, as well as the total number of Dangerous stocks in each sector.

Every sector except the Consumer Discretionary, Health Care, Information Technology, and Consumer Staples sectors has over 20% of its value invested in Dangerous-rated stocks.

Figure 10: Distribution of Dangerous Stocks by Sector



Source: New Constructs, LLC and company filings

Figure 11 presents the data charted in Figure 10.

Figure 11: Distribution of Dangerous Stocks by Sector

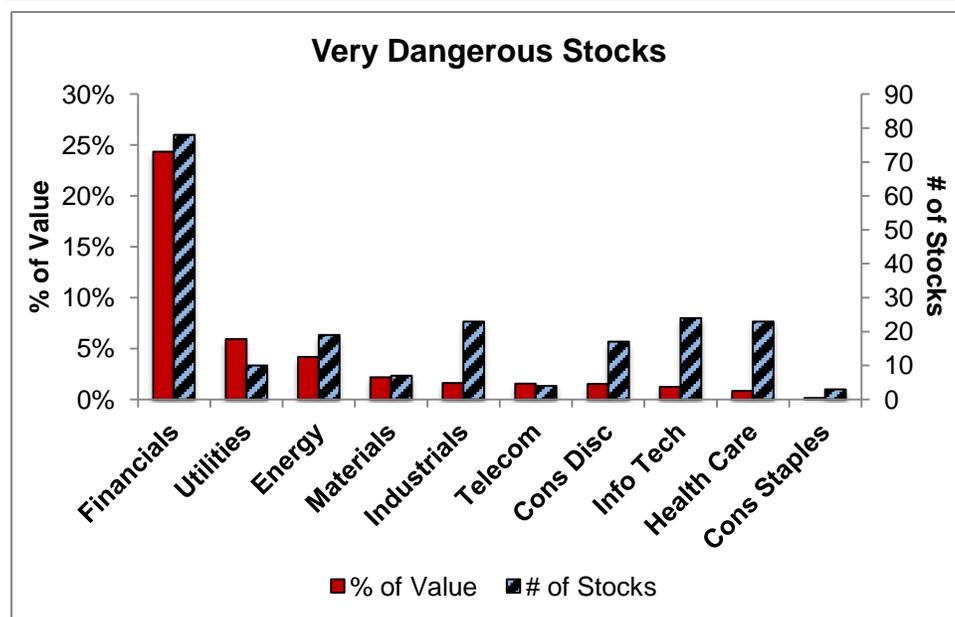
Sector	% of Sector Value	# of Dangerous Stocks	% of Dangerous Stocks in Sector
Telecom	64%	24	56%
Utilities	42%	46	52%
Financials	40%	259	47%
Industrials	35%	211	49%
Materials	33%	79	53%
Energy	28%	121	64%
Cons Disc	18%	208	44%
Health Care	13%	217	54%
Cons Staples	9%	43	34%
Info Tech	9%	234	42%

Source: New Constructs, LLC and company filings

Figure 12 presents a mapping of Very Dangerous stocks by sector. The chart shows the percentage of the value of each sector made up of Very Dangerous stocks, as well as the total number of Very Dangerous stocks in each sector.

The Financials sector has 24% of its value invested in stocks with Very Dangerous ratings.

Figure 12: Distribution of Very Dangerous Stocks by Sector



Source: New Constructs, LLC and company filings

Figure 13 presents the data charted in Figure 12.

Figure 13: Distribution of Very Dangerous Stocks by Sector

Sector	% of Sector Value	# of Very Dangerous Stocks	% of Very Dangerous Stocks in Sector
Financials	24%	78	14%
Utilities	6%	10	11%
Energy	4%	19	10%
Materials	2%	7	5%
Industrials	2%	23	5%
Telecom	2%	4	9%
Cons Disc	2%	17	4%
Info Tech	1%	24	4%
Health Care	1%	23	6%
Cons Staples	0%	3	2%

Source: New Constructs, LLC and company filings

Best and Worst Funds by Sector

Figures 14 and 15 present the best and worst funds in each sector as of January 19, 2012 according to our [Predictive Rating](#). For a full list of all funds in each sector ranked from best to worst, see our free [fund screener](#).

Figure 14: Best Funds by Sector

Sector	Best Funds		
	Type	Ticker	Name
Financials	ETF	KBWP	PowerShares KBW Property & Casualty Insurance Portfolio
Energy	ETF	ERX	Direxion Daily Energy Bull 3X Shares
Telecom	MF	PRMTX	T Rowe Price Media & Telecommunications Fund, Inc
Utilities	MF	GASFX	FBR Funds: FBR Gas Utility Index Fund
Materials	ETF	XLB	Materials Select Sector SPDR
Industrials	ETF	XLI	Industrial Select Sector SPDR
Consumer Disc	MF	ICCCX	ICON Funds: ICON Consumer Discretionary Fund
Health Care	ETF	RYH	Rydex S&P Equal Weight Health Care ETF
Cons. Staples	ETF	RHS	Rydex S&P Equal Weight Consumer Staples ETF
Info Tech	MF	ICTEX	ICON Funds: ICON Information Technology Fund

Source: New Constructs, LLC and company filings

Figure 15: Worst Funds by Sector

Sector	Worst Funds		
	Type	Ticker	Name
Financials	MF	SOAAX	Spirit of America Inv Fund, Inc: Spirit of America Real Estate Income & Gro Fd
Energy	MF	WEGAX	Waddell & Reed Advisors Funds: Waddell & Reed Advisors Energy Fund
Telecom	ETF	LTL	ProShares Ultra Telecommunications ProShares
Utilities	MF	RYUIX	Rydex Series Funds: Utilities Fund
Materials	ETF	XME	SPDR S&P Metals & Mining ETF
Industrials	ETF	EVX	Market Vectors Environmental Services ETF
Consumer Disc	ETF	ITB	iShares Dow Jones U.S. Home Construction Index Fund
Health Care	MF	FBTAX	Fidelity Advisor Series VII: Fidelity Advisor Biotechnology Fund
Cons. Staples	MF	FSHOX	Fidelity Select Portfolios: Construction & Housing Portfolio
Info Tech	MF	WSTAX	Ivy Funds: Ivy Science & Technology Fund

Source: New Constructs, LLC and company filings

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 EPS	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	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.