

Best & Worst ETFs & Mutual Funds: Consumer Staples Sector

The Consumer Staples sector ranks first out of the ten sectors as detailed in my [Sector Rankings for ETFs and Mutual Funds](#) report. It gets my Very Attractive rating, which is based on aggregation of ratings of 10 ETFs and 15 mutual funds in the Consumer Staples sector as of July 17, 2014. Prior reports on the best & worst ETFs and mutual funds in every sector are [here](#).

Figure 1 ranks from best to worst the nine Consumer Staples ETFs that meet our liquidity standards and Figure 2 shows the five best and worst-rated Consumer Staples mutual funds. Not all Consumer Staples sector ETFs and mutual funds are created the same. The number of holdings varies widely (from 20 to 117). This variation creates drastically different investment implications and, therefore, ratings. The best ETFs and mutual funds allocate more value to Attractive-or-better-rated stocks than the worst ETFs and mutual funds, which allocate too much value to Neutral-or-worse-rated stocks.

To [identify the best](#) and [avoid the worst](#) ETFs and mutual funds within the Consumer Staples sector, investors need a [predictive rating](#) based on (1) the [stocks ratings](#) of the holdings, (2) the [all-in expenses](#) of each ETF and mutual fund, and (3) the fund's rank compared to all other ETFs and mutual funds. As a result, only the cheapest funds with the best holdings receive Attractive or better ratings. Investors need not rely on backward-looking ratings. My fund rating methodology is detailed [here](#).

Investors seeking exposure to the Consumer Staples sector should buy one of the Attractive-or-better rated ETFs or mutual funds from Figures 1 and 2.

Get my ratings on all ETFs and mutual funds in this sector on my free [mutual fund and ETF screener](#).

Figure 1: ETFs with the Best & Worst Ratings – Top 5

Ticker	Allocation of ETF Holdings			Predictive Rating
	Attractive-or-better Stocks	Neutral Stocks	Dangerous-or-worse Stocks	
Best ETFs (only 4)				
XLP	29%	56%	14%	Very Attractive
VDC	28%	55%	16%	Very Attractive
IYK	27%	57%	16%	Very Attractive
RHS	20%	65%	15%	Very Attractive
Worst ETFs				
UGE	27%	57%	16%	Very Attractive
FXG	10%	57%	33%	Very Attractive
PBJ	8%	55%	32%	Attractive
PSL	8%	46%	42%	Neutral
PSCC	7%	17%	72%	Neutral

* Best ETFs exclude ETFs with TNAs less than \$100 million for inadequate liquidity.

Sources: New Constructs, LLC and company filings

Fidelity MSCI Consumer Staples Index (FSTA) is excluded from Figure 1 because its total net assets (TNA) are below \$100 million and do not meet our liquidity minimums.

Figure 2: Mutual Funds with the Best & Worst Ratings – Top 5

Ticker	Allocation of Mutual Fund Holdings			Predictive Rating
	Attractive-or-better Stocks	Neutral Stocks	Dangerous-or-worse Stocks	
Best Mutual Funds				
VCSAX	28%	55%	16%	Very Attractive
FDFA	15%	40%	14%	Very Attractive
FDIGX	15%	40%	14%	Very Attractive
RYCIX	22%	54%	16%	Very Attractive
FDCGX	15%	40%	14%	Very Attractive
Worst Mutual Funds				
ICLCX	17%	69%	13%	Attractive
FDAGX	15%	40%	14%	Attractive
RYPDX	22%	54%	16%	Attractive
ICRAX	17%	69%	13%	Neutral
FSHOX	24%	20%	47%	Neutral

* Best mutual funds exclude funds with TNAs less than \$100 million for inadequate liquidity.

Sources: New Constructs, LLC and company filings

ICON Funds: ICON Consumer Staples Fund (ICLEX) is excluded from Figure 2 because its total net assets (TNA) are below \$100 million and do not meet our liquidity minimums.

State Street SPDR Consumer Staples Select Sector Fund (XLP) is my top-rated Consumer Staples ETF and Vanguard World Funds: Vanguard Consumer Staples Index Fund (VCSAX) is my top-rated Consumer Staples mutual fund. Both earn my Very Attractive rating.

PowerShares S&P SmallCap Consumer Staples Portfolio (PSCC) is my worst-rated Consumer Staples ETF and ICON Funds: ICON Consumer Staples Fund (ICRAX) is my worst-rated Consumer Staples mutual fund. Both earn my Neutral rating.

Figure 3 shows that 32 out of the 203 stocks (over 26% of the market value) in Consumer Staples ETFs and mutual funds get an Attractive-or-better rating. However, 8 out of 10 Consumer Staples ETFs (over 97% of total net assets) and 13 out of 15 Consumer Staples mutual funds (over 90% of total net assets) get an Attractive-or-better rating.

Figure 3: Consumer Staples Sector Landscape For ETFs, Mutual Funds & Stocks

	Very Attractive	Attractive	Neutral	Dangerous	Very Dangerous
# of Stocks	10	22	76	78	17
% of Sector	11%	15%	56%	14%	4%
# of ETFs	7	1	2	0	0
% of ETFs	70%	10%	20%	0%	0%
% of TNA	97%	3%	1%	0%	0%
# of MFs	10	3	2	0	0
% of MFs	67%	20%	13%	0%	0%
% of TNA	78%	12%	10%	0%	0%

Sources: New Constructs, LLC and company filings

As detailed in "[Cheap Funds Dupe Investors](#)", the fund industry offers many cheap funds but very few funds with high-quality stocks, or with what I call good [portfolio management](#).

Nu Skin Enterprises, Inc. (NUS) is one of my favorite stocks held by Consumer Staples ETFs and mutual funds and earns my Very Attractive rating. It is also one of my [Most Attractive Stocks](#) for July. Over the past five years, NUS has grown after-tax profit (NOPAT) by 35% compounded annually. NUS has increased [economic earnings](#) consistently since 2007, while also increasing return on invested capital (ROIC) to a top quintile 49% in 2013. NUS's stock price got crushed earlier in the year amid a Chinese investigation. We think the stock overreacted and presents a great opportunity. At its current price of ~\$72/share NUS has a price to economic book value (PEBV) ratio of 1.0. This ratio implies that the market expects NUS never to grow NOPAT meaningfully for the remaining life of the company. While the company may not continue to grow at over 30%, it's hard to see them failing to grow at all. Such low expectations make NUS a stock to buy.

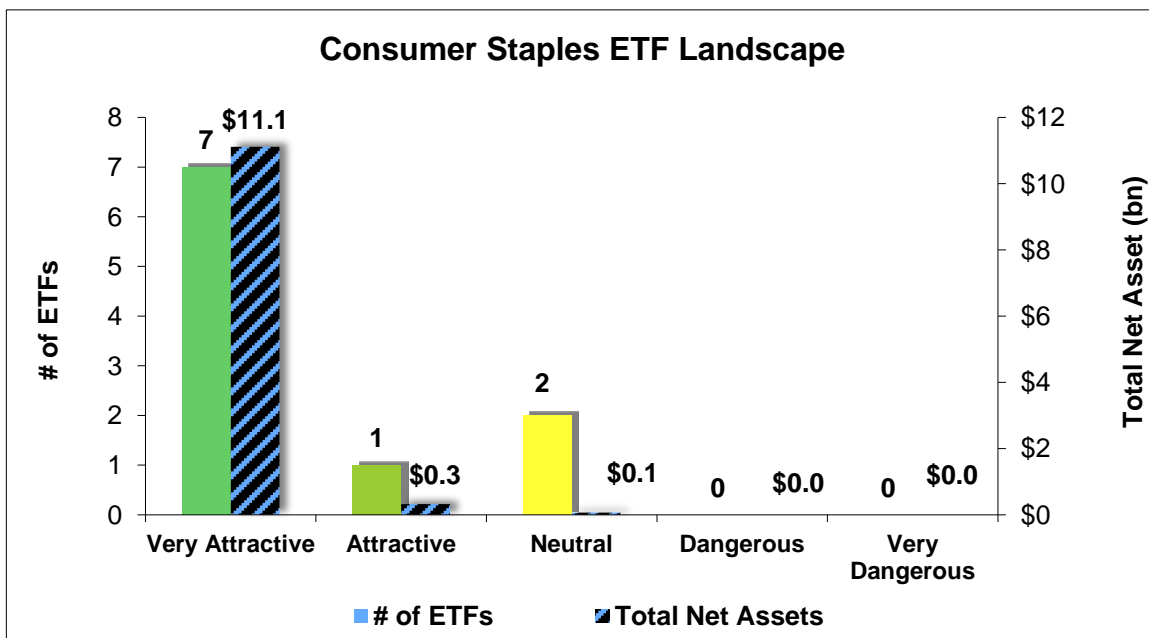
Bunge Ltd. (BG) is one of my least favorite stocks held by Consumer Staples ETFs and mutual funds and earns my Very Dangerous rating. BG also made it onto the [Most Dangerous Stocks](#) list for July. BG's NOPAT has declined by 1% over the past four years while the company currently earns a bottom quintile ROIC of 4%. Making matters worse, BG has generated negative [economic earnings](#) every year since 2008. Despite these struggles, the stock remains richly valued. To justify its current price of ~\$76/share, BG would need to grow NOPAT by 10% compounded annually for the next 15 years. This seems awfully optimistic for a company that hasn't grown NOPAT for the past five years. Investors should avoid BG.

121 stocks of the 3000+ I cover are classified as Consumer Staples stocks.

Figures 4 and 5 show the rating landscape of all Consumer Staples ETFs and mutual funds.

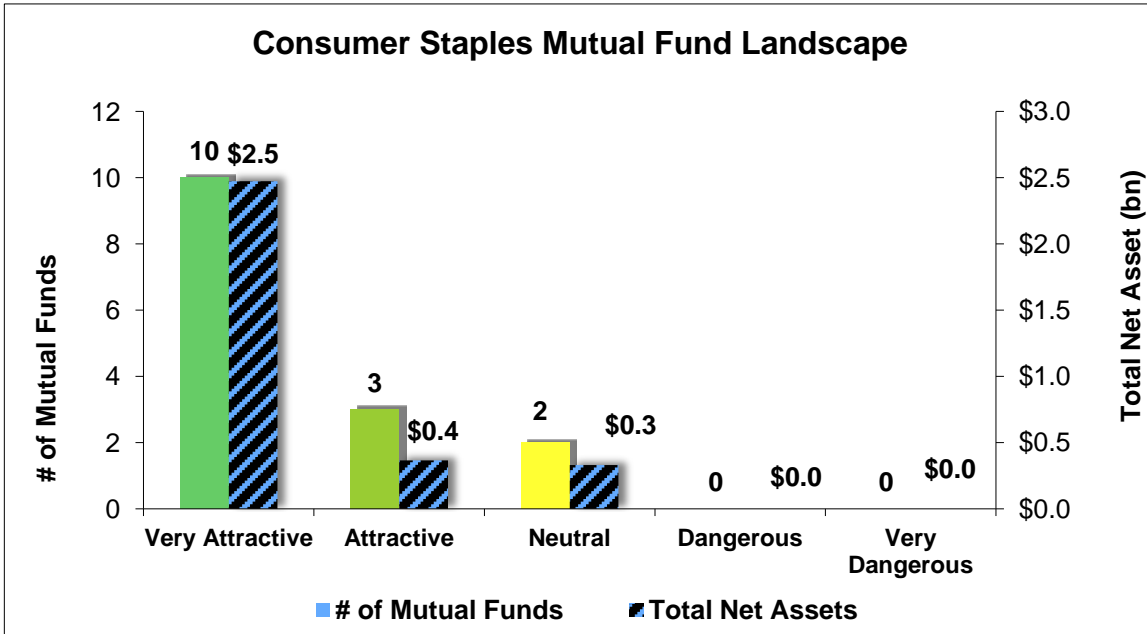
My [Sector Rankings for ETFs and Mutual Funds](#) report ranks all sectors and highlights those that offer the best investments.

Figure 4: Separating the Best ETFs From the Worst ETFs



Sources: New Constructs, LLC and company filings

Figure 5: Separating the Best Mutual Funds From the Worst Mutual Funds



Sources: New Constructs, LLC and company filings

Review my [full list](#) of ratings and rankings along with reports on all 10 ETFs and 15 mutual funds in the Consumer Staples sector.

Kyle Guske II contributed to this report.

Disclosure: David Trainer owns NUS. David Trainer and Kyle Guske II receive no compensation to write about any specific stock, sector or theme.

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