



How To Find the Best Sector Mutual Funds

Finding the best mutual funds is an increasingly difficult task in a world with so many to choose from. How can you pick with so many choices available?

Don't Trust Mutual Fund Labels

There are at least 244 different Financials mutual funds and at least 654 mutual funds across all sectors. Do investors need that many choices? How different can the mutual funds be?

Those 244 Financials mutual funds are very different. With anywhere from 20 to 556 holdings, many of these Financials mutual funds have drastically different portfolios, creating drastically different investment implications.

The same is true for the mutual funds in any other sector, as each offers a very different mix of good and bad stocks. Consumer Staples ranks first. Energy ranks last. Details on the [Best & Worst mutual funds in each sector are here.](#)

A Recipe for Paralysis By Analysis

We firmly believe mutual funds for a given sector should not all be that different. We think the large number of Financials (or any other) sector mutual funds hurts investors more than it helps because too many options can be paralyzing. It is simply not possible for the majority of investors to properly assess the quality of so many mutual funds. Analyzing mutual funds, done with the proper diligence, is far more difficult than analyzing stocks because it means analyzing all the stocks within each mutual fund. As stated above, that can be as many as 556 stocks, and sometimes even more, for one mutual fund.

Any investor worth his salt recognizes that analyzing the holdings of a mutual fund is critical to finding the best mutual fund. Figure 1 shows our top rated mutual fund for each sector.

Figure 1: The Best Mutual Fund in Each Sector

| Ticker | Name | Sector | Assets (\$mm) |
|--------|---|------------------------|---------------|
| FSCPX | Fidelity Select: Consumer Discretionary | Consumer Discretionary | \$1,103 |
| FDFA | Fidelity Select: Consumer Staples | Consumer Staples | \$2,938 |
| FSESX | Fidelity Select: Energy Service | Energy | \$809 |
| FSPCX | Fidelity Select: Insurance | Financials | \$393 |
| LOGSX | Oak Associates Funds: Live Oak Health Sciences | Health Care | \$54 |
| FSLEX | Fidelity Select: Environment and Alternative Energy | Industrials | \$86 |
| ROGSX | Oak Associates Funds: Red Oak Technology | Information Technology | \$147 |
| FSCHX | Fidelity Select: Chemicals | Materials | \$1,530 |
| FWRLX | Fidelity Select: Wireless | Telecom Services | \$259 |
| BULIX | American Century Quantitative Equity: Utilities | Utilities | \$381 |

Sources: New Constructs, LLC and company filings

How to Avoid "The Danger Within"

Why do you need to know the holdings of mutual funds before you buy?

You need to be sure you do not buy a fund that might blow up. Buying a fund without analyzing its holdings is like buying a stock without analyzing its business and finances. No matter how cheap, if it holds bad stocks, the mutual fund's performance will be bad.

PERFORMANCE OF FUND'S HOLDINGS = PERFORMANCE OF FUND



If Only Investors Could Find Funds Rated by Their Holdings...

New Constructs covers over 3000 stocks and is known for the due diligence we do for each stock we cover. Accordingly, our coverage of mutual funds leverages the diligence we do on each stock by rating mutual funds based on the aggregated ratings of the stocks each mutual fund holds.

Fidelity Select: Insurance (FSPCX) is the top-rated Financials mutual fund and the overall best fund of the 654 sector mutual funds that we cover.

The worst mutual fund in Figure 1 is American Century Quantitative Equity: Utilities (BULIX), which gets our Neutral rating. One would think mutual fund providers could do better for this sector.

Max Lee contributed to this post.

Disclosure: David Trainer and Max Lee receive no compensation to write about any specific stock, sector, or theme.



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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.

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