ETF & Mutual Fund Rankings: Consumer Staples Sector

The Consumer Staples sector ranks first out of the 10 sectors as detailed in our 3Q15 Sector Ratings for ETFs and Mutual Funds report. It gets our Attractive rating, which is based on aggregation of ratings of 10 ETFs and 14 mutual funds in the Consumer Staples sector as of July 6, 2015. See a recap of our 2Q15 Sector Ratings here.

Figure 1 ranks from best to worst all ten Consumer Staples ETFs and Figure 2 ranks the top five best and worst Consumer Staples mutual funds that meet our liquidity standards. Not all Consumer Staples sector ETFs and mutual funds are created the same. The number of holdings varies widely (from 16 to 114). This variation creates drastically different investment implications and, therefore, ratings.

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. Note that even two of the worst ETFs still hold enough quality stocks to earn an Attractive-or-better rating.

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

	Allocation of ETF Holdings			
Ticker	**Attractive-or-better Stocks**	**Neutral Stocks**	**Dangerous-or-worse Stocks**	**Predictive Rating**
Best ETFs				
FSTA	53%	37%	10%	Very Attractive
VDC	50%	38%	11%	Very Attractive
XLP	52%	40%	8%	Very Attractive
RHS	27%	60%	13%	Very Attractive
IYK	47%	36%	16%	Very Attractive
Worst ETFs				
UGE	47%	36%	16%	Very Attractive
PBJ	16%	57%	28%	Attractive
PSL	13%	48%	37%	Neutral
FXG	14%	61%	24%	Neutral
PSCC	19%	34%	47%	Dangerous

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

Sources: New Constructs, LLC and company filings

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

	Allocation of Mutual Fund Holdings			
Ticker	**Attractive-or-better Stocks**	**Neutral Stocks**	**Dangerous-or-worse Stocks**	**Predictive Rating**
Best Mutual Funds				
FDFAX	38%	26%	8%	**Very Attractive**
FDIGX	38%	26%	8%	**Very Attractive**
FDCGX	38%	26%	8%	**Very Attractive**
FDTGX	38%	26%	8%	**Very Attractive**
FDBGX	38%	26%	8%	**Very Attractive**
Worst Mutual Funds				
RYPDX	33%	40%	17%	**Neutral**
ICLEX	18%	54%	19%	**Neutral**
ICLCX	18%	54%	19%	**Neutral**
FSHOX	26%	29%	37%	**Neutral**
ICRAX	18%	54%	19%	**Dangerous**

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

Sources: New Constructs, LLC and company filings

Fidelity MSCI Consumer Staples Index ETF (FSTA) is the top-rated Consumer Staples ETF and Fidelity Select Consumer Staples Portfolio (FDFAX) is the top-rated Consumer Staples mutual fund. Both earn a Very Attractive rating.

PowerShares S&P SmallCap Consumer Staples Portfolio ETF (PSCC) is the worst-rated Consumer Staples ETF and Icon Funds Consumer Staples Fund (ICRAX) is the worst-rated Consumer Staples mutual fund. Both earn a Dangerous rating.

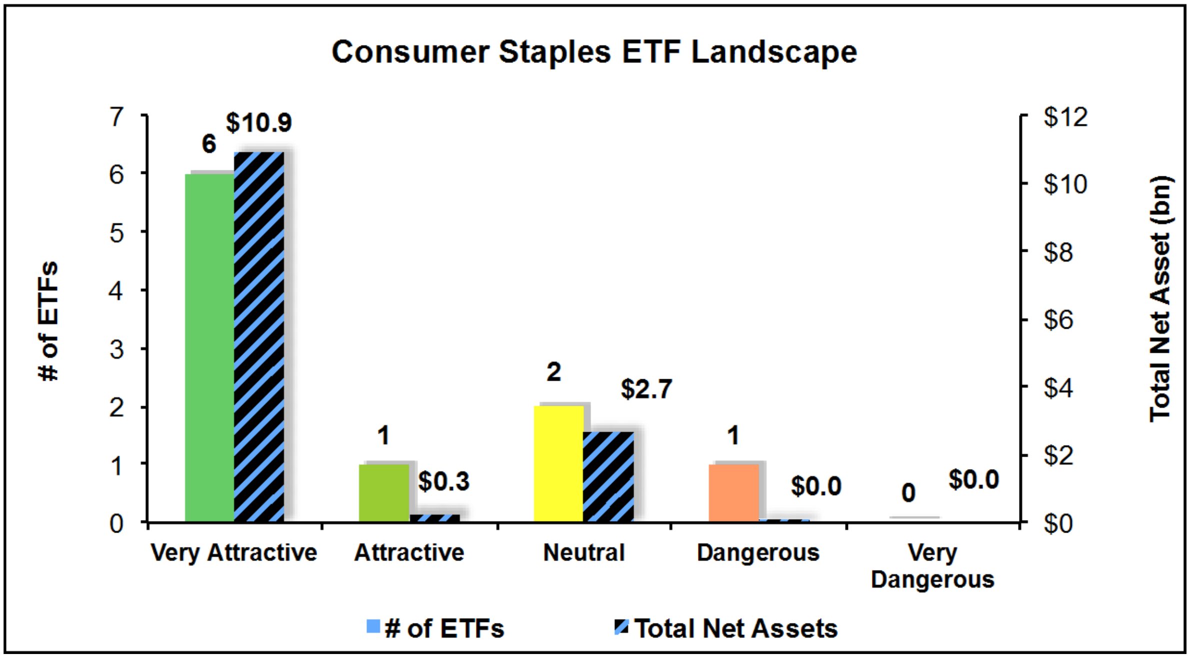
119 stocks of the 3000+ we cover are classified as Consumer Staples stocks.

Phillip Morris International, Inc. (PM: $81/share) is one of our favorite stocks held by FSTA and earns our Very Attractive rating. Since going public in 2008, the company has grown after-tax profits (NOPAT) by 6% compounded annually. The company also earns a top-quintile return on invested capital (ROIC) of 29%. Despite these strong fundamentals the stock price remains undervalued. At its current price of $81/share, PM has a price to economic book value (PEBV) ratio of 1.0. This ratio implies the market expects the company's NOPAT to never meaningfully grow over the remaining life of the business. If Phillip Morris can grow NOPAT by just 4% compounded annually for the next five years, the stock is worth $104/share today – a 28% upside. Considering Phillip Morris' strong position within a resilient sector, the company should surpass the market's low expectations.

Bunge, Ltd. (BG: $86/share) is one of our least favorite stocks held by Consumer Staples ETFs and mutual funds and earns our Dangerous rating. Since 2011 the company's NOPAT has declined by 9% compounded annually. As to be expected with declining profits, ROIC has fallen to a bottom quintile 4%. Despite Bunge's poor performance, the company remains overvalued. To justify its current price of $86/share, Bunge must grow NOPAT by 9% compounded annually for 17 years. It seems overly optimistic to expect Bunge to grow profits at such levels for nearly two decades after years of profit decline. Investors would be wise to look elsewhere in the Consumer Staples sector.

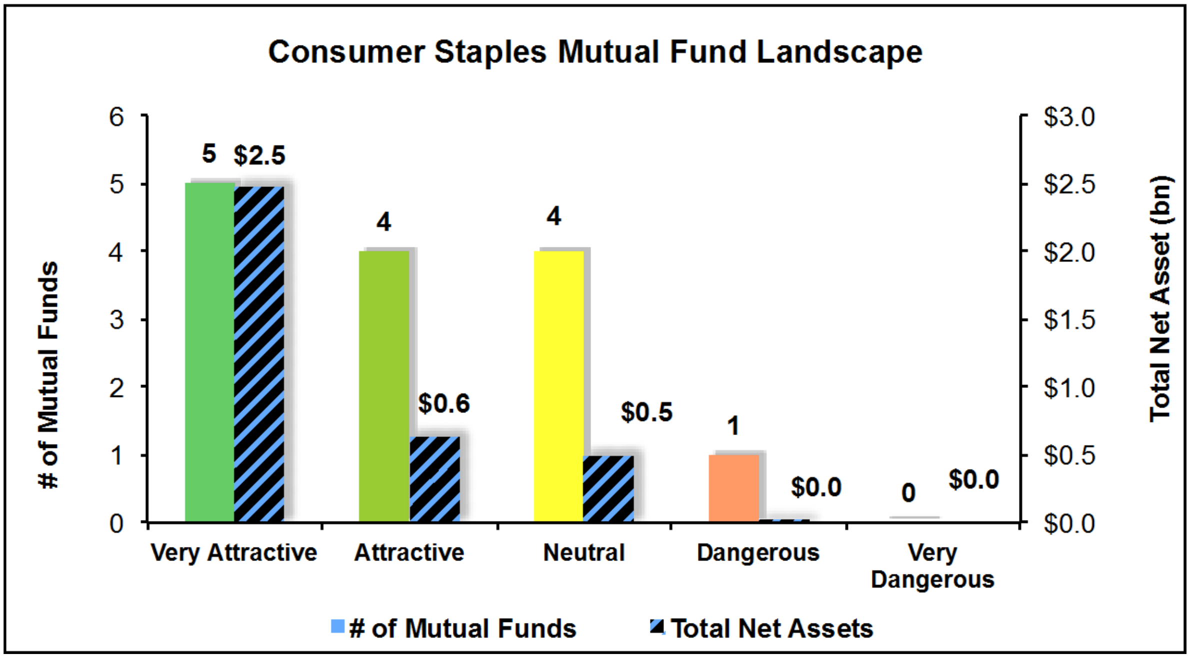
Figures 3 and 4 show the rating landscape of all Consumer Staples ETFs and mutual funds.

Figure 3: Separating the Best ETFs From the Worst ETFs



Sources: New Constructs, LLC and company filings

Figure 4: Separating the Best Mutual Funds From the Worst Mutual Funds



Sources: New Constructs, LLC and company filings

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

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2. Standard for all companies.
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