



How To Find the Best Sector ETFs

Finding the best ETFs 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 ETF Labels

There are at least 44 different Financials ETFs and at least 196 ETFs across all sectors. Do investors need 19+ choices on average per sector? How different can the ETFs be?

Those Financials ETFs are very different. With anywhere from 24 to 561 holdings, many of these Financials ETFs have drastically different portfolios, creating drastically different investment implications.

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

A Recipe for Paralysis By Analysis

We firmly believe ETFs for a given sector should not all be that different. We think the large number of Financials (or any other) sector ETFs 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 ETFs. Analyzing ETFs, done with the proper diligence, is far more difficult than analyzing stocks because it means analyzing all the stocks within each ETF. As stated above, that can be as many as 561 stocks, and sometimes even more, for one ETF.

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

Figure 1: The Best ETF in Each Sector

Ticker	Name	Sector	Assets (\$mm)
JETS	US Global Jets ETF	Consumer Discretionary	\$43
FSTA	Fidelity MSCI Consumer Staples Index ETF	Consumer Staples	\$149
OIH	Van Eck Market Vectors Oil Services ETF	Energy	\$1,034
KBWP	PowerShares KBW Property & Casualty Insurance ETF	Financials	\$30
IXJ	iShares S&P Global Healthcare Index Fund ETF	Health Care	\$1,620
XLI	State Street SPDR Industrial Select Sector Fund ETF	Industrials	\$6,185
IXN	iShares S&P Global Technology Index Fund ETF	Information Technology	\$802
FMAT	Fidelity MSCI Materials Index ETF	Materials	\$36
XTL	State Street SPDR S&P Telecom ETF	Telecom Services	\$21
FUTY	Fidelity MSCI Utilities Index ETF	Utilities	\$114

Sources: New Constructs, LLC and company filings

How to Avoid "The Danger Within"

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

You need to be sure you do not buy an ETF that might blow up. Buying an ETF 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 ETF's performance will be bad. Don't just take my word for it; see [what Barron's says](#) on this matter.

PERFORMANCE OF ETF'S HOLDINGS = PERFORMANCE OF ETF

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 ETFs leverages the diligence we do on each stock by rating ETFs based on the aggregated ratings of the stocks each ETF holds.

PowerShares KBW Property & Casualty Insurance Portfolio ETF (KBWP) is the top-rated Financials ETF and the overall best ETF of the 196 sector ETFs that we cover.

The worst ETF in Figure 1 is Fidelity MSCI Materials Index ETF (FMAT), which gets a Neutral rating. One would think ETF providers could do better for this sector.

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



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How New Constructs Creates Value for Clients

We find it. You benefit. Cutting-edge technology enables us to scale our [forensics accounting expertise](#) across 3000+ stocks. We shine a light in the dark corners of SEC filings so our clients can make safer, more informed decisions.

Our [stock rating methodology](#) instantly informs you of the quality of the business and the fairness of the stock's valuation. We do the diligence on earnings quality and valuation so you don't have to.

In-depth risk/reward analysis underpins our ratings. Our rating methodology grades every stock, ETF, and mutual fund according to what we believe are the 5 most important criteria for assessing the quality of an equity. Each grade reflects the balance of potential risk and reward of buying that equity. Our analysis results in the 5 ratings described below. Very Attractive and Attractive correspond to a "Buy" rating, Very Dangerous and Dangerous correspond to a "Sell" rating, while Neutral corresponds to a "Hold" rating.

QUESTION: Why shouldn't fund research be as good as stock research? Why should fund investors rely on backward-looking price trends?

ANSWER: They should not.

Don't judge a fund by its cover. Take a look inside at its holdings and understand the quality of earnings and valuation of the stocks it holds. We enable you to choose the best fund based on its stock-picking merits so you do not have to rely solely on backward-looking technical metrics.

The drivers of our [forward-looking fund ratings](#) are Portfolio Management (i.e. the aggregated ratings of its holdings) and Total Annual Costs. The Total Annual Costs Rating ([details here](#)) captures the all-in cost of being in a fund over a 3-year holding period, the average period for all fund investors.

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 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](#).

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