ETF & Mutual Fund Rankings: Industrials Sector

The Industrials sector ranks first out of the ten sectors as detailed in our 1Q16 Sector Ratings for ETFs and Mutual Funds report. Last quarter, the Industrials sector ranked second. It gets our Neutral rating, which is based on aggregation of ratings of 20 ETFs and 17 mutual funds in the Industrials sector as of April 15, 2016. See a recap of our 1Q16 Sector Ratings here.

Figures 1 and 2 show the five best and worst rated ETFs and mutual funds in the sector. Not all Industrials sector ETFs and mutual funds are created the same. The number of holdings varies widely (from 20 to 343). This variation creates drastically different investment implications and, therefore, ratings.

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

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				
IYJ	11%	53%	32%	Very Attractive
ITA	22%	54%	18%	Very Attractive
IYT	32%	38%	30%	Very Attractive
VIS	16%	50%	33%	Attractive
FIDU	13%	51%	34%	Attractive
Worst ETFs				
XTN	31%	29%	39%	Neutral
ARKQ	12%	26%	43%	Neutral
PPA	15%	61%	21%	Neutral
FXR	22%	49%	27%	Neutral
EVX	0%	53%	45%	Dangerous

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

Sources: New Constructs, LLC and company filings

U.S. Global Jets ETF (JETS) and EcoLogical Strategy ETF (HECO), and Guggenheim S&P 500 Equal Weight Industrials (RGI) are excluded from Figure 1 because their 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

	Allocation of Mutual Fund Holdings			
Ticker	Attractive-or-better Stocks	Neutral Stocks	Dangerous-or-worse Stocks	Predictive Rating
Best Mutual Funds				
FSRFX	35%	40%	19%	**Attractive**
VINAX	16%	50%	32%	**Attractive**
FCYIX	11%	47%	30%	**Attractive**
FCLIX	11%	48%	30%	**Attractive**
FCLCX	11%	48%	30%	**Neutral**
Worst Mutual Funds				
FSCGX	7%	53%	34%	**Neutral**
FCLBX	11%	48%	30%	**Neutral**
FCLAX	11%	48%	30%	**Neutral**
RYTSX	33%	39%	20%	**Neutral**
ICIAX	26%	49%	19%	**Dangerous**

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

Sources: New Constructs, LLC and company filings

Five mutual funds are excluded from Figure 2 because their total net assets (TNA) are below $100 million and do not meet our liquidity minimums. See our mutual fund screener for more details.

iShares US Industrials ETF (IYJ) is the top-rated Industrials ETF and Fidelity Select Transportation Portfolio (FSRFX) is the top-rated Industrials mutual fund. IYJ earns a Very Attractive rating and FSRFX earns an Attractive rating.

Market Vectors Environmental Services ETF (EVX) is the worst rated Industrials ETF and ICON Industrials Fund (ICIAX) is the worst rated Industrials mutual fund. Both earn a Dangerous rating.

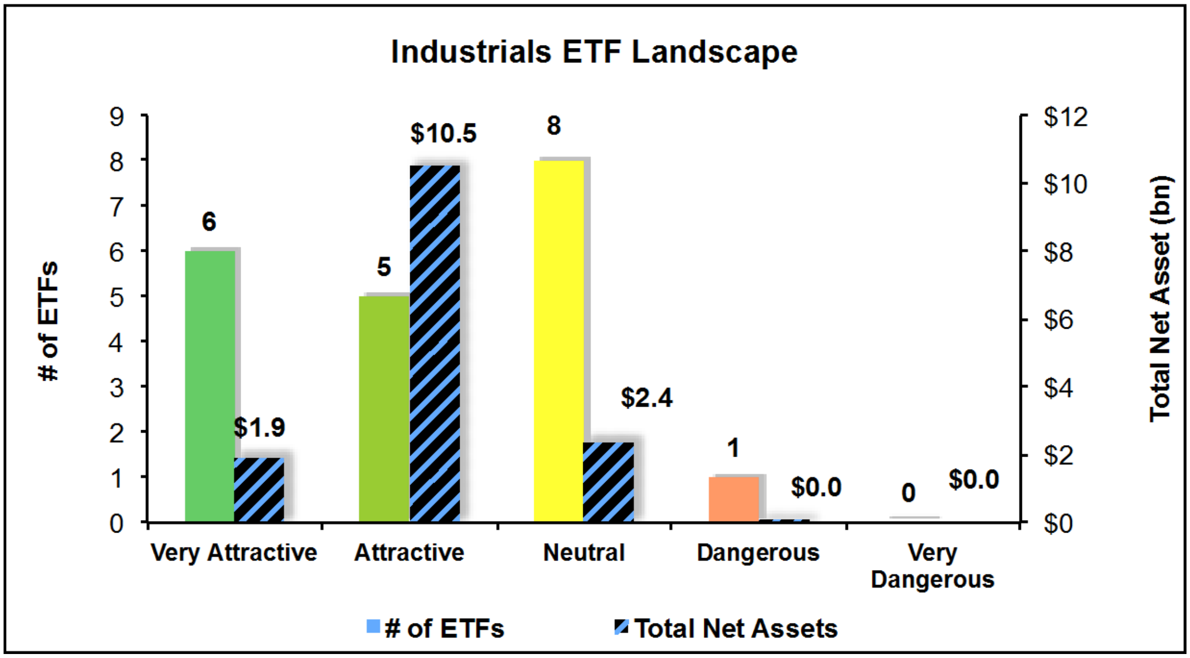
403 stocks of the 3000+ we cover are classified as Industrials stocks.

JetBlue Airways (JBLU: $21/share) is one of our favorite stocks held by FSRFX and earns an Attractive rating. Over the past decade, JetBlue has grown after-tax profit (NOPAT) by an impressive 30% compounded annually. The company has improved its return on invested capital (ROIC) from 2% in 2005 to 11% in 2015. The company has also quadrupled its NOPAT margin from 3% to 12% over this same timeframe. Despite the strong fundamentals, JBLU is undervalued. At its current price of $21/share, JBLU has a price-to-economic book value (PEBV) ratio of 1.0. This ratio means that the market expects JetBlue's NOPAT to never increase from current levels. If JetBlue can grow NOPAT by just 12% compounded annually for the next decade, the stock is worth $47/share today – a 123% upside.

Clean Harbors (CLH: $50/share) is one of our least favorite stocks held by ICIAX and earns a Very Dangerous rating. CLH is also on April's Most Dangerous Stocks list. Over the past five years, Clean Harbors' NOPAT has declined by 1% compounded annually. Its ROIC has fallen from a once impressive 13% in 2010 to a bottom-quintile 4% in 2015. However, in a disconnect with the business fundamentals, the stock is up 26% over the past three months and shares are largely overvalued. To justify its current price of $50/share, CLH must grow NOPAT by 13% compounded annually for the next 18 years. Such lofty expectations make it clear why CLH in on this month's most dangerous stocks list and should be avoided.

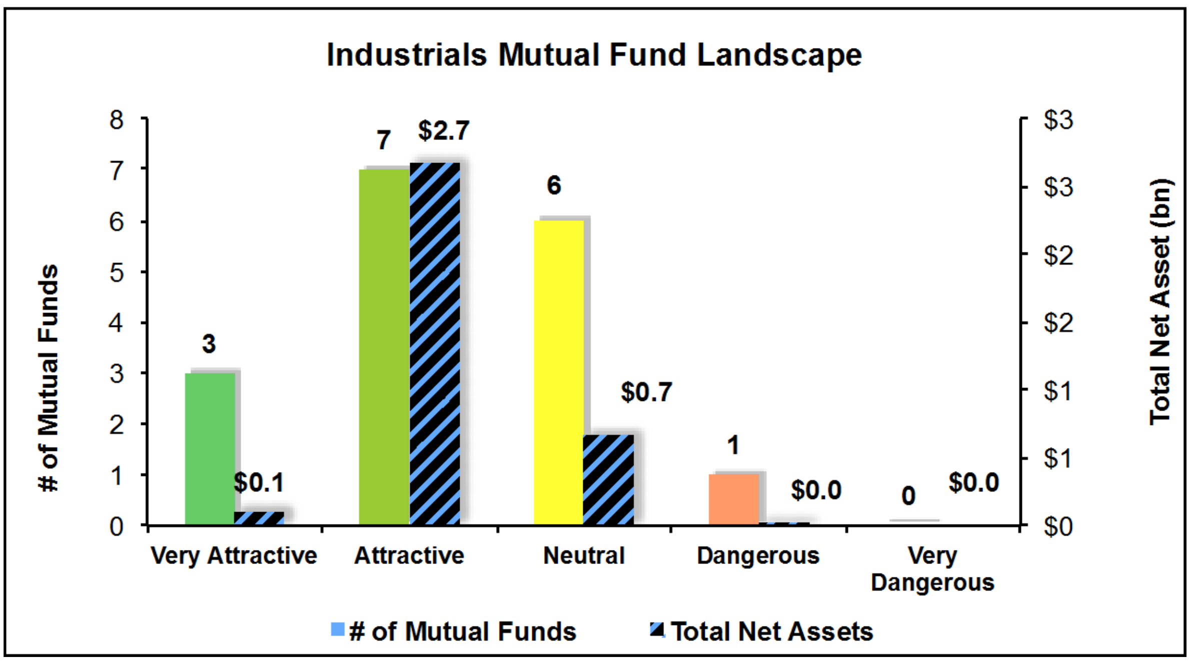
Figures 3 and 4 show the rating landscape of all Industrials ETFs and mutual funds.

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 Kyle Guske II 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 forensic 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.

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