



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 240 different Financials mutual funds and at least 643 mutual funds across ten sectors. Do investors need 63+ choices on average per sector? How different can the mutual funds be?

Those 643 Financials mutual funds are very different. With anywhere from 21 to 560 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. Industrials rank first for stock selection. Energy ranks last. Details on the [Best & Worst mutual funds in each sector are here](#).

Paralysis By Analysis

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 643 stocks, and sometimes even more, for one mutual fund.

Any investor focused on fulfilling fiduciary duties 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)
FDLSX	Fidelity Select Leisure Portfolio	Consumer Discretionary	\$420
VCSAX	Vanguard Consumer Staples Index	Consumer Staples	\$3,590
CRZZX	MainStay Cushing Renaissance Advantage Fund	Energy	\$183
DVFX	Davis Series Financial Fund	Financials	\$906
LOGSX	Live Oak Health Sciences Fund	Health Care	\$55
ICTRX	ICON Industrials Fund	Industrials	\$16
FSDCX	Communications Equipment Portfolio	Information Technology	\$173
FMFEX	Fidelity Advisor Materials Fund	Materials	\$1,474
WIREX	PFS Wireless Fund	Telecom Services	\$4
EVUYX	Wells Fargo Utility & Telecommunications Fund	Utilities	\$394

Sources: New Constructs, LLC and company filings

Amongst the funds in Figure 1, Fidelity Select Communications Equipment Portfolio (FSDCX) ranks first overall, Vanguard Consumer Staples Index Fund (VCSAX) ranks second, and ICON Industrials Fund (ICTRX) ranks third. MainStay Cushing Renaissance Advantage Fund (CRZZX) ranks last.

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. Don't just take my word for it, see [what Barron's says](#) on this matter.

PERFORMANCE OF FUND'S HOLDINGS = PERFORMANCE OF FUND

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

Our [mutual fund ratings](#) leverage our [stock coverage](#). We rate mutual funds based on the aggregated ratings of the stocks each mutual fund holds.

Fidelity Select Communications Equipment Portfolio (FSDCX) is the top-rated Information Technology mutual fund and the overall best fund of the 643 sector mutual funds that we cover.

The worst mutual fund in Figure 1 is MainStay Cushing Renaissance Advantage Fund (CRZZX), which gets a Neutral rating. One would think mutual fund providers could do better for this sector.

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



New Constructs® – Profile

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.

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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