ETF & Mutual Fund Rankings: Consumer Staples Sector

The Consumer Staples sector ranks first out of the ten sectors as detailed in our 3Q16 Sector Ratings for ETFs and Mutual Funds report. Last quarter, the Consumer Staples sector ranked third. It gets our Neutral rating, which is based on an aggregation of ratings of nine ETFs and 14 mutual funds in the Consumer Staples sector as of July 12, 2016. See a recap of our 2Q16 Sector Ratings here.

Figure 1 ranks from best to worst all nine Consumer Staples ETFs and Figure 2 shows the five best and worst rated Consumer Staples mutual funds. Not all Consumer Staples sector ETFs and mutual funds are created the same. The number of holdings varies widely (from 15 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.

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				
IYK	32%	48%	16%	Very Attractive
FSTA	33%	48%	15%	Attractive
VDC	30%	50%	16%	Attractive
XLP	33%	50%	13%	Attractive
RHS	17%	60%	17%	Attractive
Worst ETFs (only 4)				
PBJ	10%	60%	30%	Attractive
PSL	14%	57%	23%	Attractive
PSCC	29%	19%	51%	Neutral
FXG	13%	58%	26%	Neutral

* 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				
VCSAX	30%	50%	17%	Attractive
FDFAX	23%	35%	20%	Attractive
FDIGX	23%	35%	20%	Attractive
FDCGX	23%	35%	20%	Attractive
FDTGX	23%	35%	20%	Attractive
Worst Mutual Funds				
FSHOX	22%	34%	32%	Neutral
FDAGX	23%	35%	20%	Neutral
ICLEX	19%	37%	25%	Neutral
RYPDX	21%	53%	17%	Neutral
ICRAX	19%	37%	25%	Very Dangerous

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

Sources: New Constructs, LLC and company filings

Fidelity Select Automotive Portfolio (FSAVX) is excluded from Figure 2 because its total net assets (TNA) are below $100 million and do not meet our liquidity minimums.

iShares US Consumer Goods ETF (IYK) is the top rated Consumer Staples ETF and Vanguard Consumer Staples Index Fund (VCSAX) is the top rated Consumer Staples mutual fund. IYK earns a Very Attractive rating and VCSAX earns an Attractive rating.

First Trust Consumer Staples AlphaDEX Fund (FXG) is the worst rated Consumer Staples ETF and ICON Consumer Staples Fund (ICRAX) is the worst rated Consumer Staples mutual fund. FXG earns a Neutral rating and ICRAX earns a Very Dangerous rating.

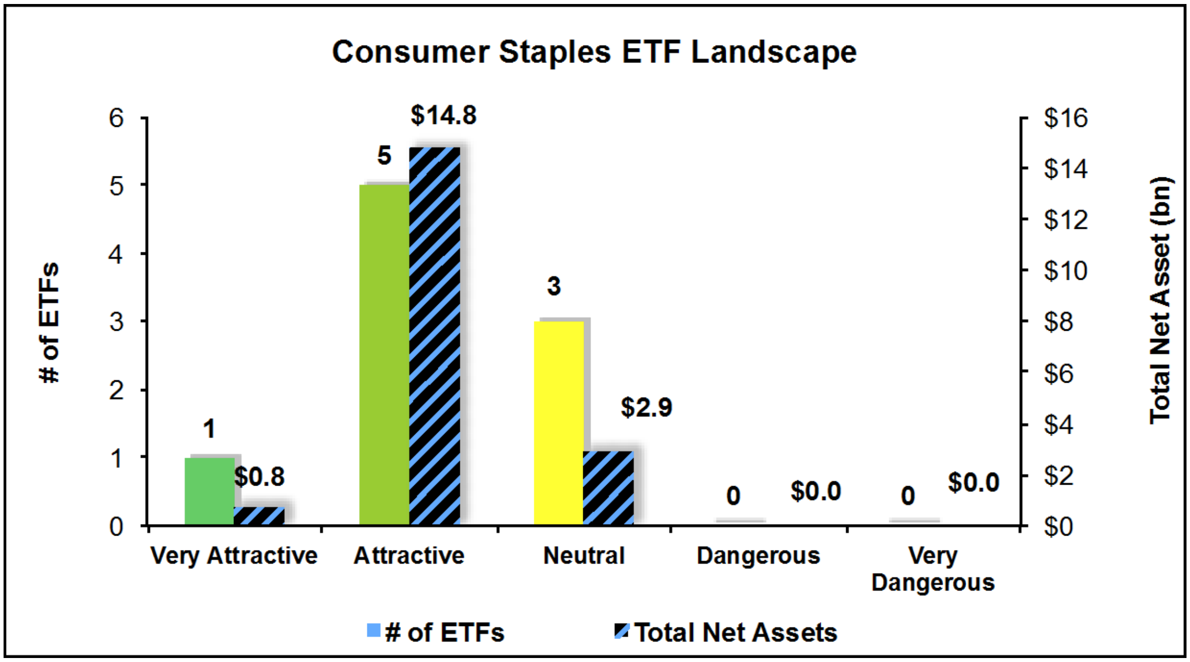
117 stocks of the 3000+ we cover are classified as Consumer Staples stocks.

Tenneco Inc. (TEN: $45/share) is one of our favorite stocks held by FSAVX and earns a Very Attractive rating. Since 2009, Tenneco has grown after-tax profit (NOPAT) by 25% compounded annually. Tenneco has improved its return on invested capital (ROIC) over this same time, from 4% in 2009 to 11% over the last twelve months. Despite the improving operations, TEN remains undervalued. At its current price of $45/share TEN has a price-to-economic book value (PEBV) ratio of 0.9. This ratio means that the market expects TEN's NOPAT to permanently decline by 10%. If Tenneco can grow NOPAT by just 5% compounded annually for the next five years, the stock is worth $72/share today - a 60% upside.

Seneca Foods Corp (SENEA $36/share) is one of our least favorite stocks held by Consumer Staple ETFs and mutual funds and earns a Dangerous rating. Since going public in 2006, SENEA's NOPAT has actually declined by 0.2% compounded annually. SENEA's ROIC has declined from 7% in 2006 to a bottom-quintile 3% over the last twelve months. Despite the deteriorating profitability, SENEA remains overvalued. To justify its current price of $36/share, SENEA must grow NOPAT by 10% compounded annually for 15 years. This expectation seems optimistic given SENEA's profit decline since 2006.

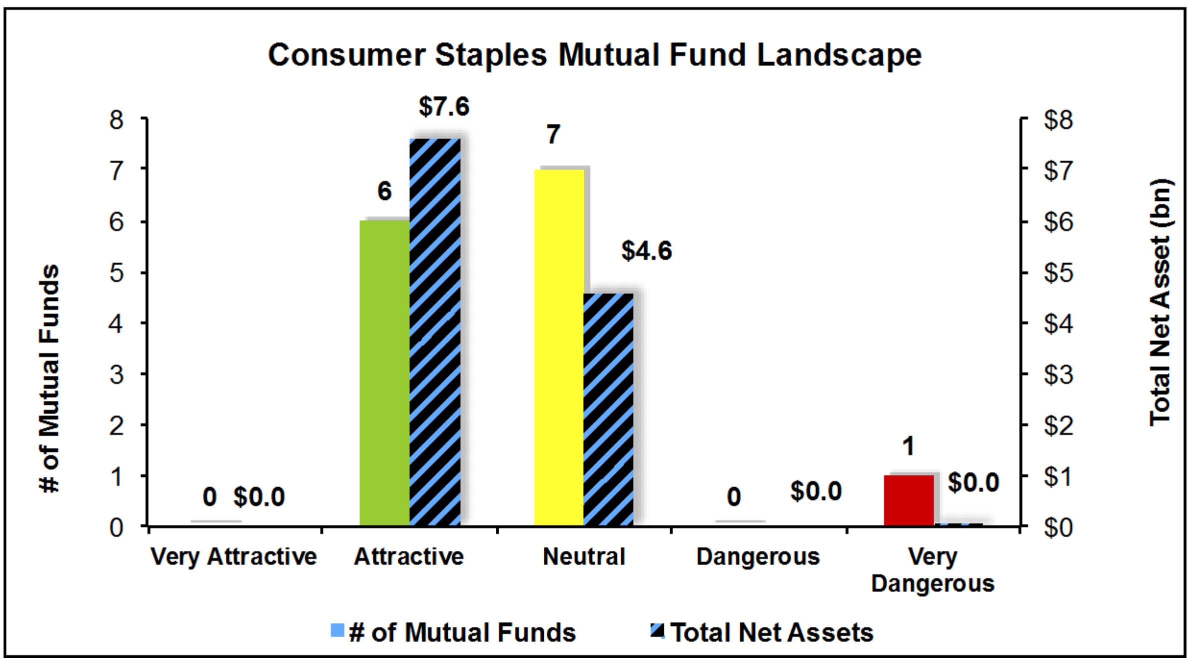
Figures 3 and 4 show the rating landscape of all Consumer Staples ETFs and mutual funds.

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

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Disclosure: David Trainer and Kyle Martone 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.

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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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