ETF & Mutual Fund Rankings: Telecom Services Sector

The Telecom Services sector ranks ninth out of the ten sectors as detailed in our 4Q16 Sector Ratings for ETFs and Mutual Funds report. Last quarter, the Telecom Services sector ranked eighth. It gets our Dangerous rating, which is based on an aggregation of ratings of six ETFs and 12 mutual funds in the Telecom Services sector as of October 19, 2016. See a recap of our 3Q16 Sector Ratings here.

Figures 1 and 2 rank all six ETFs and all 9 mutual funds in the sector that meet our liquidity standards. Not all Telecom Services sector ETFs and mutual funds are created the same. The number of holdings varies widely (from 22 to 65). This variation creates drastically different investment implications and, therefore, ratings.

Investors seeking exposure to the Telecom Services sector should buy the Attractive-or-better rated ETF from Figures 1.

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 (only 1)				
IXP	17%	0%	62%	**Attractive**
Worst ETFs				
IGN	26%	19%	44%	**Neutral**
FCOM	27%	2%	64%	**Neutral**
XTL	14%	12%	65%	**Neutral**
VOX	28%	3%	68%	**Dangerous**
IYZ	13%	5%	79%	**Very 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 (only 3)				
FWRLX	8%	29%	38%	**Neutral**
TTMIX	8%	24%	44%	**Dangerous**
PRMTX	8%	24%	44%	**Dangerous**
Worst Mutual Funds				
FSTCX	16%	3%	73%	**Very Dangerous**
FTUIX	16%	3%	73%	**Very Dangerous**
FTUCX	16%	3%	73%	**Very Dangerous**
FTUTX	16%	3%	73%	**Very Dangerous**
FTUAX	16%	3%	73%	**Very Dangerous**

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

Sources: New Constructs, LLC and company filings

Rydex Telecommunications Funds (RYMIX, RYMAX) are excluded from Figure 2 because their total net assets (TNA) are below $100 million and do not meet our liquidity minimums.

iShares Global Telecom ETF (IXP) is the top-rated Telecom Services ETF and Fidelity Wireless Portfolio (FWRLX) is the top-rated Telecom Services mutual fund. IXP earns an Attractive rating and FWRLX earns a Neutral rating.

iShares US Telecommunications ETF (IYZ) is the worst rated Telecom Services ETF and Fidelity Advisor Telecommunications Fund (FTUAX) is the worst rated Telecom Services mutual fund. Both earn a Very Dangerous rating.

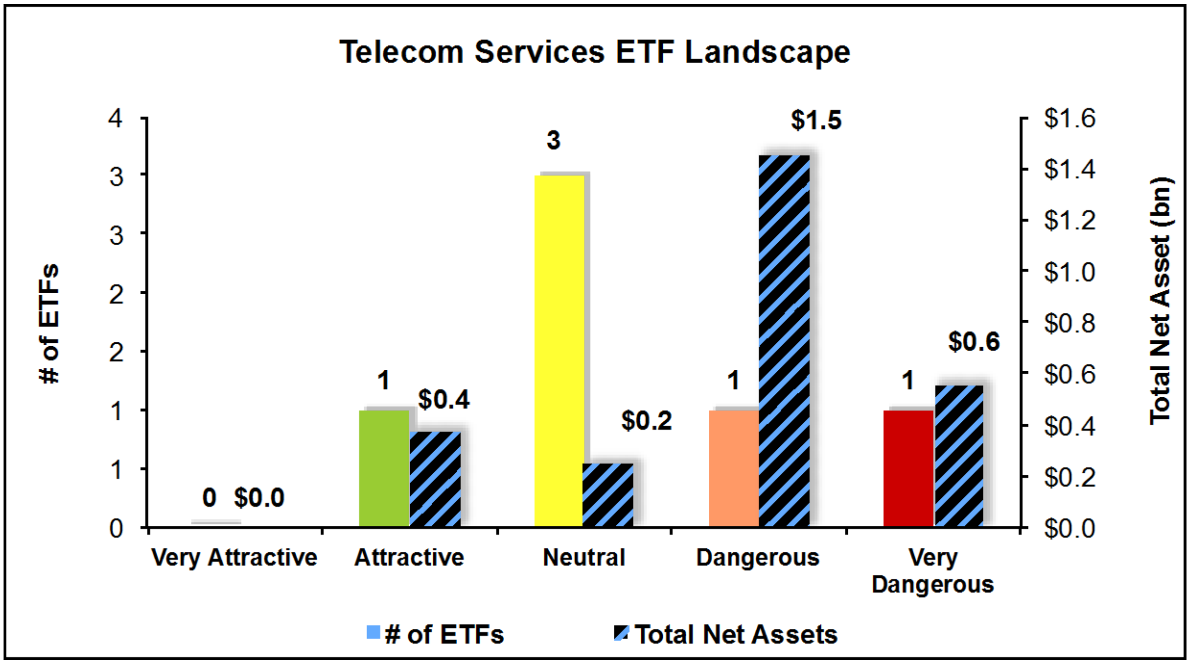
48 stocks of the 3000+ we cover are classified as Telecom Services stocks.

Inteliquent Inc. (IQNT: $17/share) is one of our favorite stocks held by Telecom Services ETFs and mutual funds and earns an Attractive rating. We featured IQNT as a Long Idea in April 2015. Since 2007, Inteliquent has grown after-tax profit (NOPAT) by 18% compounded annually. The company has improved its return on invested capital (ROIC) from 16% in 2007 to a top-quintile 21% over the last twelve months (TTM). Despite the improving fundamentals, IQNT remains undervalued. At its current price of $17/share, IQNT has a price-to-economic book value (PEBV) ratio of 1.1. This ratio means the market expects IQNT's NOPAT to increase no more than 10% over the remainder of its corporate life. If IQNT can grow NOPAT by 9% (half the current rate) compounded annually for the next decade, the stock is worth $22/share today – a 38% upside.

American Tower Corp (AMT: $113/share) is one of our least favorite stocks held by FTUAX and earns a Very Dangerous rating. AMT is also on October's Most Dangerous Stocks list. AMT's economic earnings have fallen from -$207 million in 2011 to -$270 million in 2015, and even further, to -$457 million TTM. The company's ROIC has dropped from an already low 6% in 2011 to 5% TTM. Further highlighting the fundamental deterioration, AMT has burned through $16.5 billion in cumulative free cash flow since 2011. Despite the clear shareholder value destruction, AMT remains overvalued. In order to justify its current price of $113/share, AMT must grow NOPAT by 11% compounded annually for the next 11 years. This expectation seems rather optimistic given AMT's history of profit losses.

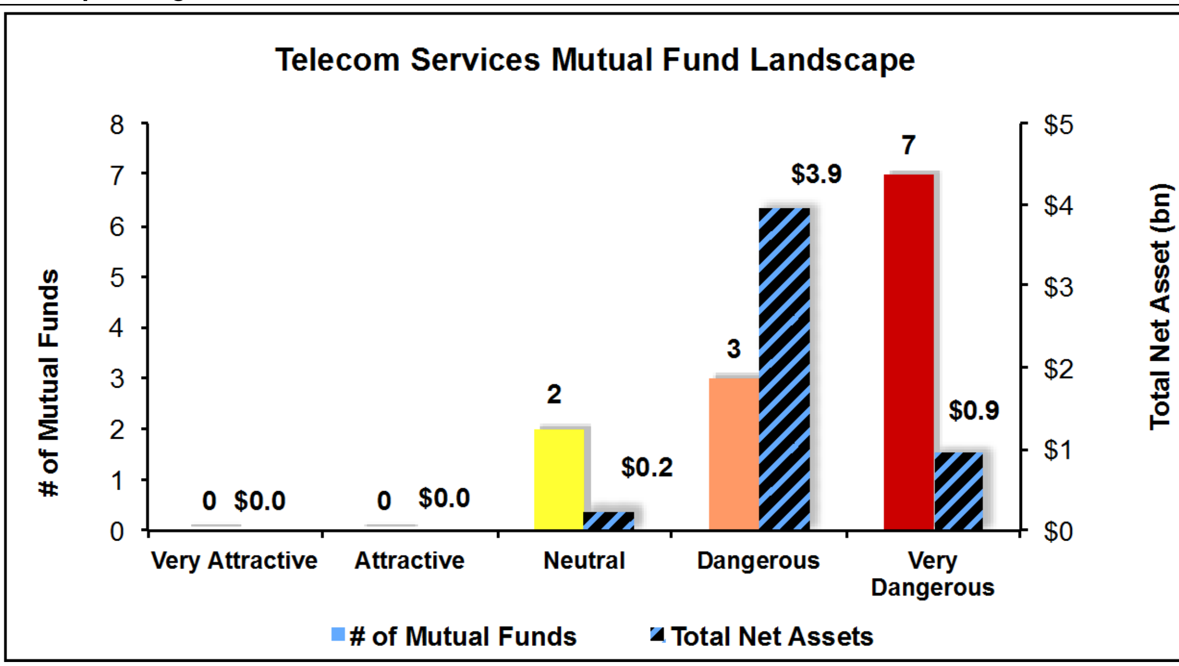
Figures 3 and 4 show the rating landscape of all Telecom Services ETFs and mutual funds.

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, Kyle Martone, and Kyle Guske II receive no compensation to write about any specific stock, sector or theme.

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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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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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