



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 238 different Financials mutual funds and at least 682 mutual funds across ten sectors. Do investors need 68+ choices on average per sector? How different can the mutual funds be?

Those 238 Financials mutual funds are very different. With anywhere from 59 to 547 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. Consumer Staples funds rank first for stock selection. Energy funds rank 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 547 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 Leisure Portfolio	Consumer Discretionary	\$386
VCSAX	Vanguard Consumer Staples Index Fund	Consumer Staples	\$4,191
TOPIX	Tortoise Select Opportunity Fund	Energy	\$34
VFAIX	Vanguard Financials Index Fund	Financials	\$3,481
PHSYX	Putnam Global Health Care Fund	Health Care	\$1,496
RYPIX	Rydex Transportation Fund	Industrials	\$24
FDCPX	Fidelity Computers Portfolio	Information Technology	\$432
FSCHX	Fidelity Chemicals Portfolio	Materials	\$1,335
FWRLX	Fidelity Wireless Portfolio	Telecom Services	\$228
FUFRX	Franklin Utilities Fund	Utilities	\$6,324

Sources: New Constructs, LLC and company filings

Amongst the mutual funds in Figure 1, Vanguard Financials Index Fund (VFAIX) ranks first overall, Putnam Global Health Care Fund (PHSYX) ranks second, and Fidelity Computers Portfolio (FDCPX) ranks third. Tortoise Select Opportunity Fund (TOPIX) 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 our 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.

Vanguard Financials Index Fund (VFAIX) is not only the top-rated Financials mutual fund, but is also the best fund out of the 682 sector mutual funds that we cover.

The worst mutual fund in Figure 1 is Tortoise Select Opportunity Fund (TOPIX), which gets a Dangerous rating. One would think mutual fund providers could do better for this sector.

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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.

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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