ETF & Mutual Fund Rankings: Consumer Discretionary Sector

The Consumer Discretionary sector ranks fifth out of the ten sectors as detailed in our 1Q17 Sector Ratings for ETFs and Mutual Funds report. Last quarter, the Consumer Discretionary sector ranked second. It gets our Neutral rating, which is based on an aggregation of ratings of 13 ETFs and 19 mutual funds in the Consumer Discretionary sector as of January 11, 2017. See a recap of our 4Q16 Sector Ratings here.

Figure 1 ranks from best to worst the eight Consumer Discretionary ETFs that meet our liquidity standards and Figure 2 shows the five best and worst-rated Consumer Discretionary mutual funds. Not all Consumer Discretionary sector ETFs and mutual funds are created the same. The number of holdings varies widely (from 25 to 386). This variation creates drastically different investment implications and, therefore, ratings.

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

Here is our ETF and mutual fund rating methodology, which leverages our rigorous analysis of each fund's holdings. We think advisors and investors focused on prudent investment decisions should include analysis of fund holdings in their research process for ETFs and mutual funds.

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 4)				
IYC	48%	26%	24%	Attractive
XRT	40%	41%	15%	Attractive
XLY	50%	24%	26%	Neutral
VCR	44%	26%	26%	Neutral
Worst ETFs				
FDIS	45%	26%	27%	Neutral
FXD	38%	36%	22%	Neutral
PEJ	39%	26%	24%	Neutral
PBS	21%	34%	39%	Dangerous

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

Sources: New Constructs, LLC and company filings

Five ETFs are excluded from Figure 1 because their total net assets (TNA) are below $100 million and do not meet our liquidity minimums. See our ETF screener for more details.

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				
FDLSX	44%	22%	26%	Attractive
FCNIX	36%	25%	27%	Neutral
FSCPX	36%	24%	28%	Neutral
FSRPX	46%	15%	32%	Neutral
VCDAX	44%	26%	24%	Neutral
Worst Mutual Funds				
FCNAX	36%	25%	27%	Dangerous
FACPX	36%	25%	27%	Dangerous
RYLSX	36%	34%	23%	Dangerous
FMBPX	26%	30%	24%	Dangerous
FCECX	36%	25%	28%	Dangerous

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

Sources: New Constructs, LLC and company filings

Six 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 U.S. Consumer Services ETF (IYC) is the top-rated Consumer Discretionary ETF and Fidelity Leisure Portfolio (FDLSX) is the top-rated Consumer Discretionary mutual fund. Both earn an Attractive rating.

PowerShares Dynamic Media Portfolio (PBS) is the worst rated Consumer Discretionary ETF and Fidelity Advisor Consumer Discretionary Fund (FCECX) is the worst rated Consumer Discretionary mutual fund. Both earn a Dangerous rating.

435 stocks of the 3000+ we cover are classified as Consumer Discretionary stocks.

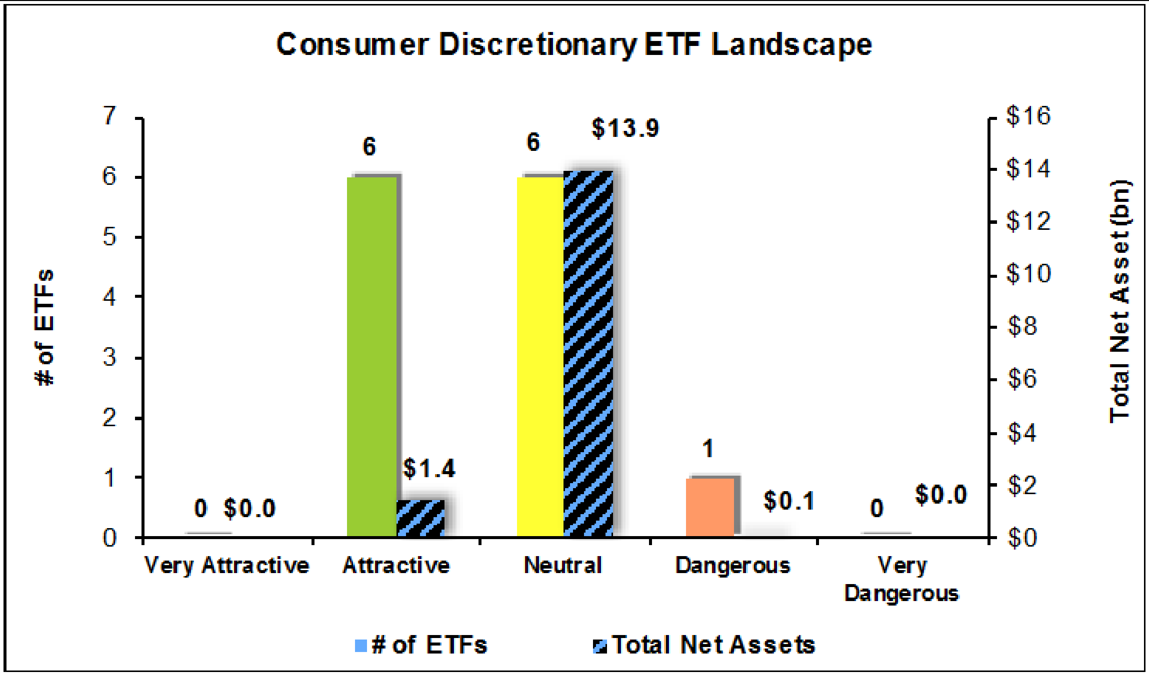
The Danger Within

Buying a fund without analyzing its holdings is like buying a stock without analyzing its business and finances. Put another way, research on fund holdings is necessary due diligence because a fund's performance is only as good as its holdings' performance. Don't just take our word for it, see what Barron's says on this matter.

PERFORMANCE OF FUND's HOLDINGs = PERFORMANCE OF FUND

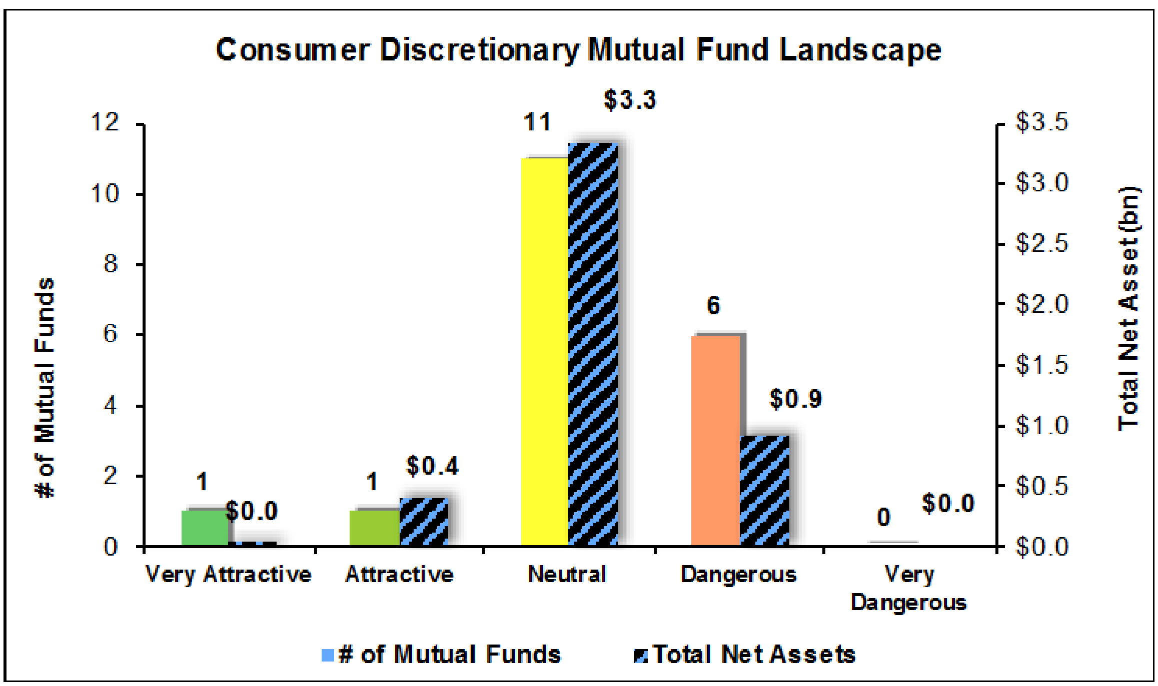
Figures 3 and 4 show the rating landscape of all Consumer Discretionary ETFs and mutual funds.

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 Guske 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.

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

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