ETF & Mutual Fund Rankings: Energy Sector

The Energy sector ranks last out of the ten sectors as detailed in our 1Q17 Sector Ratings for ETFs and Mutual Funds report. Last quarter, the Energy sector ranked last as well. It gets our Very Dangerous rating, which is based on an aggregation of ratings of 22 ETFs and 124 mutual funds in the Energy sector as of January 17, 2017. See a recap of our 4Q16 Sector Ratings here.

Figures 1 and 2 show the five best and worst rated ETFs anthod mutual funds in the sector. Not all Energy sector ETFs and mutual funds are created the same. The number of holdings varies widely (from 25 to 134). This variation creates drastically different investment implications and, therefore, ratings.

Investors should not buy any Energy ETFs or mutual funds because none get an Attractive-or-better rating. If you must have exposure to this sector, you should buy a basket of Attractive-or-better rated stocks and avoid paying undeserved fund fees. Active management has a long history of not paying off.

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				
FIW	0%	51%	47%	Neutral
PHO	8%	57%	30%	Neutral
FXN	10%	26%	62%	Dangerous
FCG	4%	9%	73%	Dangerous
IGE	2%	8%	76%	Dangerous
Worst ETFs				
FRAK	2%	3%	80%	Very Dangerous
IEO	1%	4%	90%	Very Dangerous
OIH	4%	18%	79%	Very Dangerous
PSCE	4%	9%	77%	Very Dangerous
PXE	0%	11%	86%	Very Dangerous

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

Sources: New Constructs, LLC and company filings

PowerShares Progressive Energy Portfolio (PUW) is excluded from Figure 1 because its total net assets (TNA) are below $100 million and do not meet our liquidity minimums.

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				
VENAX	60%	28%	11%	Dangerous
BPEAX	50%	35%	10%	Very Dangerous
WEGBX	35%	34%	4%	Very Dangerous
WEGAX	50%	30%	14%	Very Dangerous
ICEAX	35%	34%	4%	Very Dangerous
Worst Mutual Funds				
FSNGX	4%	1%	67%	Very Dangerous
CNRRX	4%	15%	58%	Very Dangerous
FNRAX	1%	7%	69%	Very Dangerous
CERIX	4%	15%	58%	Very Dangerous
MAGRX	1%	4%	81%	Very Dangerous

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

Sources: New Constructs, LLC and company filings

11 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.

First Trust Water ETF (FIW) is the top-rated Energy ETF and Vanguard Energy Index Fund (VENAX) is the top-rated Energy mutual fund. FIW earns our Neutral rating and VENAX earns our Dangerous rating.

PowerShares Dynamic Energy Exploration & Production (PXE) is the worst rated Energy ETF and BlackRock Natural Resources Trust (MAGRX) is the worst rated Energy mutual fund. Both earn a Very Dangerous rating.

170 stocks of the 3000+ we cover are classified as Energy stocks.

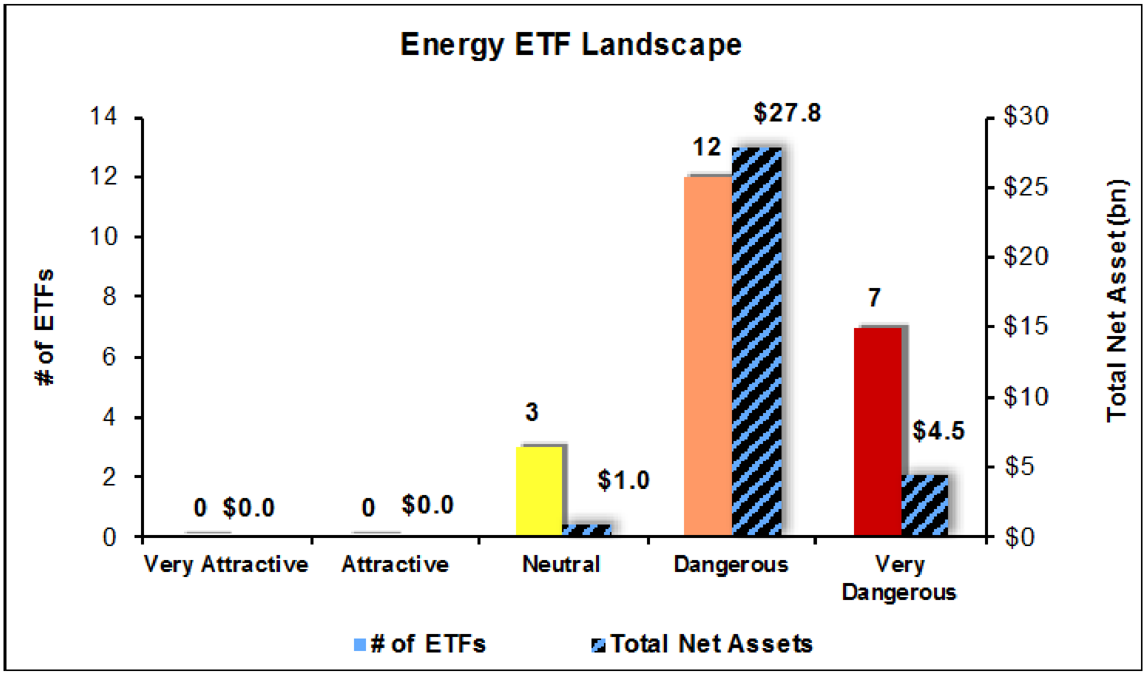
The Danger Within

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

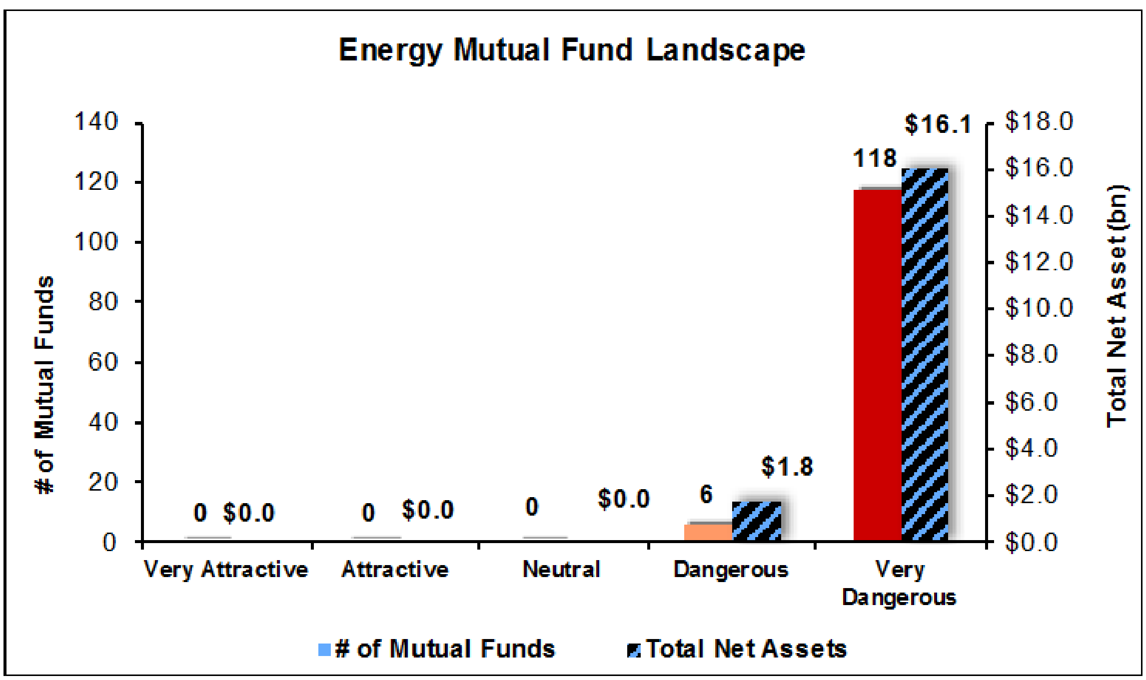
Figures 3 and 4 show the rating landscape of all Energy ETFs and mutual funds.

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

This article originally published [here](#) on 1/18/17.

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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