## **BEST & WORST FUNDS**

1/23/17

## **ETF & Mutual Fund Rankings: Health Care Sector**

The Health Care sector ranks sixth out of the ten sectors as detailed in our <a href="10">1Q17 Sector Ratings for ETFs and</a> <a href="10">Mutual Funds</a> report. <a href="10">Last quarter</a>, the Health Care sector ranked seventh. It gets our Neutral rating, which is based on an aggregation of ratings of 22 ETFs and 74 mutual funds in the Health Care sector as of January 19, 2017. See a recap of our <a href="10">4Q16 Sector Ratings here</a>.

Figures 1 and 2 show the five best and worst rated ETFs and mutual funds in the sector. Not all Health Care sector ETFs and mutual funds are created the same. The number of holdings varies widely (from 21 to 364). This variation creates drastically different investment implications and, therefore, ratings.

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

Here is our <u>ETF and mutual fund rating methodology</u>, 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

	Allocat					
Ticker	Attractive- or-better Stocks	Neutral Stocks	Dangerous- or-worse Stocks	Predictive Rating		
Best ETFs						
VHT	25%	38%	28%	Attractive		
IHF	29%	39%	26%	Attractive		
PPH	21%	45%	24%	Attractive		
IXJ	23%	40%	19%	Attractive		
XLV	29%	40%	25%	Attractive		
Worst ETFs						
PJP	20%	34%	42%	Dangerous		
BBP	11%	3%	74%	Very Dangerous		
PBE	16%	19%	63%	Very Dangerous		
FBT	9%	12%	62%	Very Dangerous		
XBI	7%	8%	60%	Very Dangerous		

<sup>\*</sup> 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					
Ticker	Attractive- or-better Stocks	Neutral Stocks	Dangerous- or-worse Stocks	Predictive Rating		
Best Mutual Funds						
PCHSX	25%	25%	27%	Attractive		
PHSRX	25%	25%	27%	Attractive		
PHSYX	25%	25%	27%	Attractive		
SWHFX	31%	28%	20%	Attractive		
ERHSX	17%	21%	36%	Neutral		
Worst Mutual Funds						
AHSZX	6%	22%	45%	Very Dangerous		
HGHTX	8%	20%	47%	Very Dangerous		
HGHIX	8%	20%	47%	Very Dangerous		
HGHYX	8%	20%	47%	Very Dangerous		
GGHCX	17%	24%	38%	Very Dangerous		

<sup>\*</sup> Best mutual funds exclude funds with TNAs less than \$100 million for inadequate liquidity.

Sources: New Constructs, LLC and company filings

Four 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 <a href="ETF">ETF</a> screener for more details.

Vanguard Health Care Index Fund (VHT) is the top-rated Health Care ETF and Putnam Global Health Care Fund (PCHSX) is the top-rated Health Care mutual fund. Both earn an Attractive rating.

State Street SPDR Series Trust (XBI) is the worst rated Health Care ETF and Invesco Global Health Care Fund (GGHCX) is the worst rated Health Care mutual fund. Both earn a Very Dangerous rating.

336 stocks of the 3000+ we cover are classified as Health Care stocks, but due to style drift, Health Care ETFs and mutual funds hold 364 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.

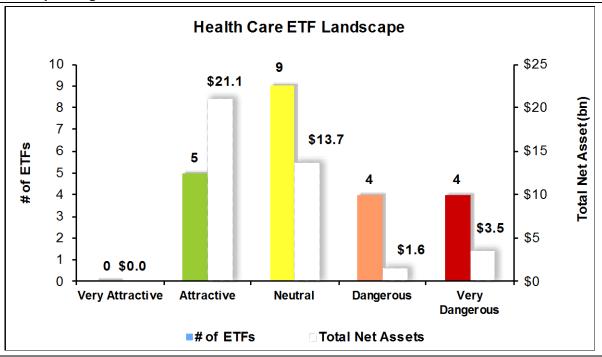
PERFORMANCE OF HOLDINGS = PERFORMANCE OF FUND





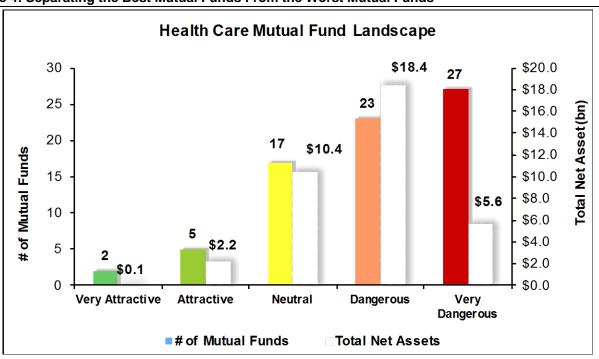
Figures 3 and 4 show the rating landscape of all Health Care ETFs and mutual funds.

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 <u>forensic accounting</u> <u>expertise</u> across 3000+ stocks. We shine a light in the dark corners of SEC filings so our clients can make safer, more informed decisions.

Our <u>stock rating methodology</u> 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 <u>forward-looking fund ratings</u> are Portfolio Management (i.e. the aggregated ratings of its holdings) and Total Annual Costs. The Total Annual Costs Rating (<u>details here</u>) 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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