



## How To Find the Best Sector ETFs

Finding the best ETFs 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 ETF Labels

There are at least 39 different Financials ETFs and at least 178 ETFs across ten sectors. Do investors need 17+ choices on average per sector? How different can the ETFs be?

Those 39 Financials ETFs are very different. With anywhere from 21 to 401 holdings, many of these Financials ETFs have drastically different portfolios, creating drastically different investment implications.

The same is true for the ETFs in any other sector, as each offers a very different mix of good and bad stocks. Consumer Staples rank first for stock selection. Energy ranks last. Details on the [Best & Worst ETFs in each sector are here](#).

### Paralysis By Analysis

We think the large number of Financials (or any other) sector ETFs 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 ETFs. Analyzing ETFs, done with the proper diligence, is far more difficult than analyzing stocks because it means analyzing all the stocks within each ETF. As stated above, that can be as many as 401 stocks, and sometimes even more, for one ETF.

Any investor focused on [fulfilling fiduciary duties](#) recognizes that analyzing the holdings of an ETF is critical to finding the best ETF. Figure 1 shows our top rated ETF for each sector.

**Figure 1: The Best ETF in Each Sector**

Ticker	Name	Sector	Assets (\$mm)
PMR	PowerShares Dynamic Retail Portfolio	Consumer Discretionary	\$21
PSL	PowerShares DWA Consumer Staples Momentum	Consumer Staples	\$83
PUW	PowerShares WilderHill Progressive Energy	Energy	\$25
IYF	iShares U.S. Financials ETF	Financials	\$1,861
IYH	iShares U.S. Healthcare ETF	Health Care	\$1,690
XHB	State Street SPDR S&P Homebuilders	Industrials	\$1,053
IYW	iShares U.S. Technology ETF	Information Technology	\$3,179
PYZ	PowerShares DWA Basic Materials Momentum	Materials	\$102
IXP	iShares Global Telecom ETF	Telecom Services	\$306
RYU	Guggenheim S&P 500 Equal Weight Utilities	Utilities	\$165

Sources: New Constructs, LLC and company filings

Amongst the ETFs in Figure 1, PowerShares Dynamic Retail Portfolio (PMR) ranks first overall, iShares U.S. Financials ETF (IYF) ranks second, and iShares U.S. Technology ETF (IYW) ranks third. PowerShares DWA Basic Materials Momentum ETF (PYZ) ranks last.

### How to Avoid "The Danger Within"

Why do you need to know the holdings of ETFs before you buy?

You need to be sure you do not buy an ETF that might blow up. Buying an ETF 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 ETF'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 [ETF ratings](#) leverage our [stock coverage](#). We rate ETFs based on the aggregated ratings of the stocks each ETF holds.

PowerShares Dynamic Retail Portfolio (PMR) is not only the top-rated Consumer Discretionary ETF, but is also the overall best sector ETF out of the 178 sector ETFs that we cover.

The worst ETF in Figure 1 is PowerShares DWA Basic Materials Momentum ETF (PYZ), which gets a Neutral rating. One would think ETF providers could do better for this sector.

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*Disclosure: David Trainer, Kyle Guske II, and Kyle Martone receive no compensation to write about any specific stock, sector, or theme.*

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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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