



## ETF & Mutual Fund Rankings: Industrials Sector

The Industrials sector ranks second out of the ten sectors as detailed in our [1Q17 Sector Ratings for ETFs and Mutual Funds](#) report. [Last quarter](#), the Industrials sector ranked fourth. It gets our Neutral rating, which is based on an aggregation of ratings of 20 ETFs and 16 mutual funds in the Industrials sector as of January 19, 2017. See a recap of our [4Q16 Sector Ratings here](#).

Figures 1 and 2 show the five best and worst rated ETFs and mutual funds in the sector. Not all Industrials sector ETFs and mutual funds are created the same. The number of holdings varies widely (from 20 to 353). This variation creates drastically different investment implications and, therefore, ratings.

Investors seeking exposure to the Industrials 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**

Ticker	Allocation of ETF Holdings			Predictive Rating
	Attractive-or-better Stocks	Neutral Stocks	Dangerous-or-worse Stocks	
<b>Best ETFs</b>				
XHB	45%	50%	2%	<b>Very Attractive</b>
ITB	36%	51%	8%	<b>Attractive</b>
IYT	32%	37%	31%	<b>Attractive</b>
XLI	25%	43%	29%	<b>Attractive</b>
PKB	21%	34%	37%	<b>Attractive</b>
<b>Worst ETFs</b>				
PSCI	9%	47%	39%	<b>Neutral</b>
VIS	23%	41%	33%	<b>Neutral</b>
FIDU	22%	42%	34%	<b>Neutral</b>
FXR	31%	39%	25%	<b>Neutral</b>
EVX	14%	51%	30%	<b>Dangerous</b>

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

Sources: New Constructs, LLC and company filings

US Global Jets ETF (JETS) 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**

Ticker	Allocation of Mutual Fund Holdings			Predictive Rating
	Attractive-or-better Stocks	Neutral Stocks	Dangerous-or-worse Stocks	
<b>Best Mutual Funds</b>				
FSLEX	27%	38%	20%	Very Attractive
FSRFX	33%	35%	24%	Attractive
FSCGX	8%	51%	33%	Neutral
VINAX	22%	41%	32%	Neutral
FSDAX	9%	59%	22%	Neutral
<b>Worst Mutual Funds</b>				
ICTRX	15%	36%	16%	Dangerous
FCYIX	7%	43%	41%	Dangerous
FCLIX	7%	43%	41%	Dangerous
ICIAX	15%	36%	16%	Very Dangerous
FCLAX	7%	43%	41%	Very Dangerous

\* 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 [mutual fund screener](#) for more details.

State Street SPDR S&P Homebuilders ETF (XHB) is the top-rated Industrials ETF and Fidelity Environment and Alternative Energy Portfolio (FSLEX) is the top-rated Industrials mutual fund. Both earn a Very Attractive rating.

VanEck Vectors Environmental Services ETF (EVX) is the worst rated Industrials ETF and Fidelity Advisors Industrials Fund (FCLAX) is the worst rated Industrials mutual fund. EVX earns our Dangerous rating and FCLAX earns our Very Dangerous rating.

394 stocks of the 3000+ we cover are classified as Industrials stocks.

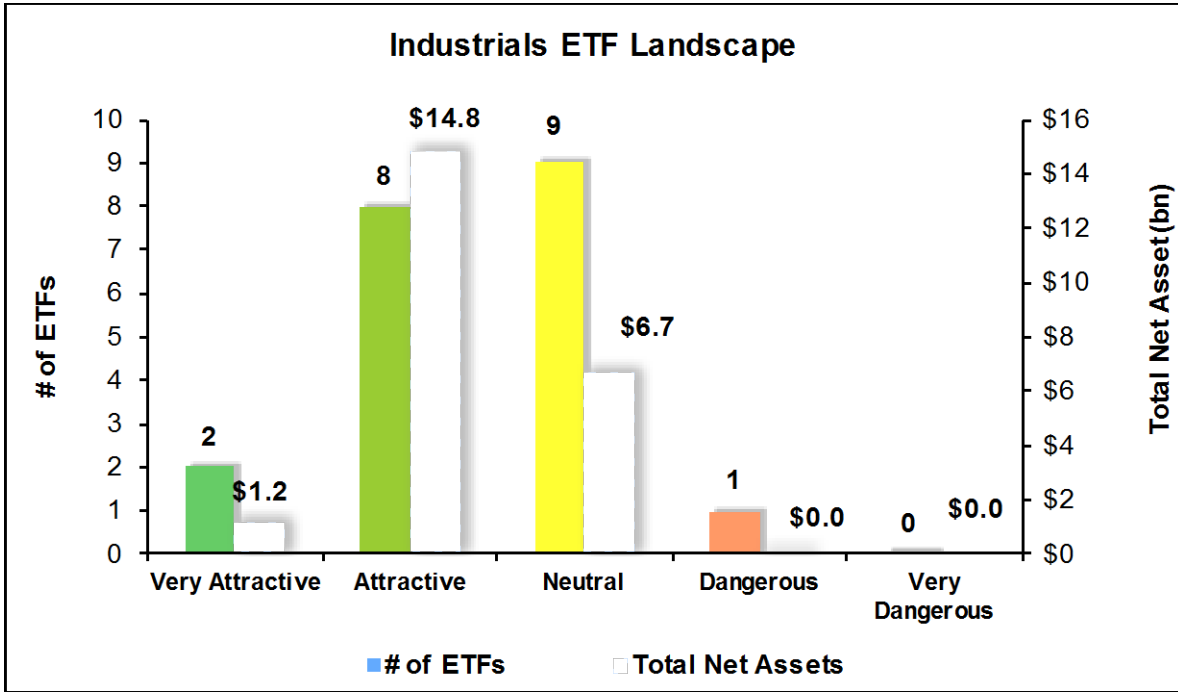
### The Danger Within

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

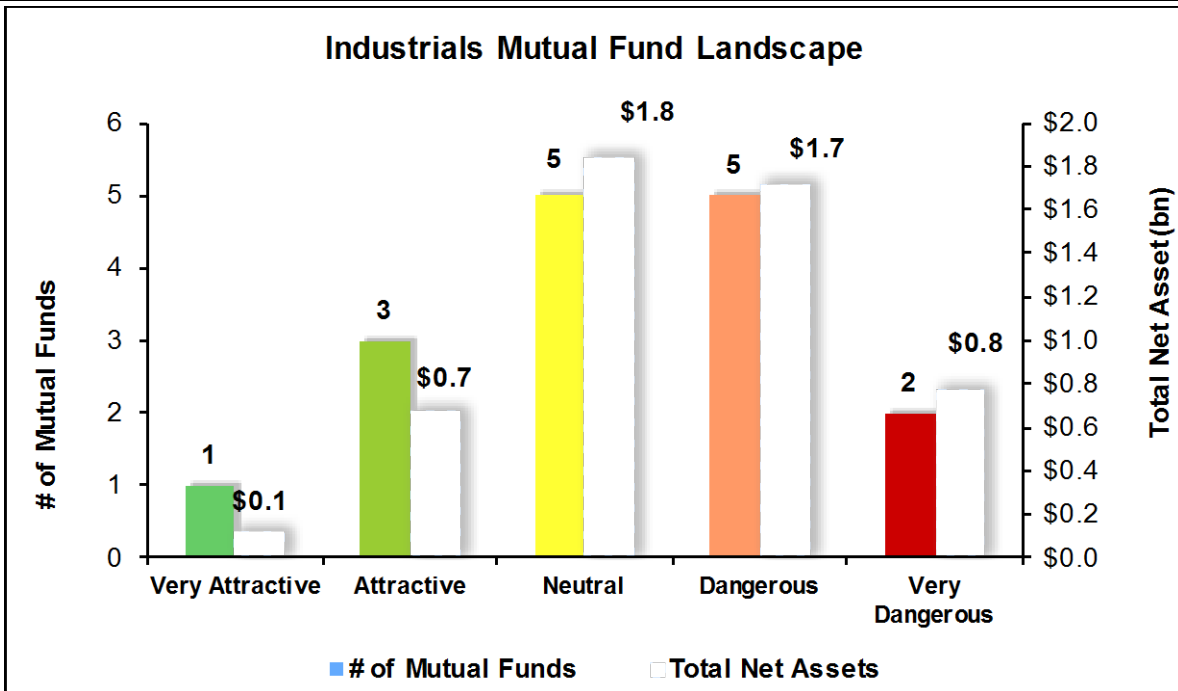
Figures 3 and 4 show the rating landscape of all Industrials ETFs and mutual funds.

**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***

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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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