ETF & Mutual Fund Rankings: Materials Sector

The Materials sector ranks eighth out of the ten sectors as detailed in our 1Q17 Sector Ratings for ETFs and Mutual Funds report. Last quarter, the Materials sector ranked sixth. It gets our Dangerous rating, which is based on an aggregation of ratings of 10 ETFs and 11 mutual funds in the Materials sector as of January 19, 2017. See a recap of our 4Q16 Sector Ratings here.

Figure 1 ranks from best to worst all ten Materials ETFs and Figure 2 shows the five best and worst-rated Materials mutual funds. Not all Materials sector ETFs and mutual funds are created the same. The number of holdings varies widely (from 26 to 121). This variation creates drastically different investment implications and, therefore, ratings.

Investors should not buy any Materials 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				
PSCM	6%	25%	50%	Neutral
VAW	14%	44%	39%	Neutral
PYZ	9%	49%	33%	Neutral
IYM	16%	43%	39%	Neutral
RTM	15%	48%	36%	Neutral
Worst ETFs				
XLB	15%	44%	41%	Neutral
FXZ	14%	51%	34%	Neutral
SLX	4%	23%	57%	Dangerous
FMAT	14%	43%	40%	Dangerous
XME	5%	24%	69%	Very Dangerous

* 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 of Mutual Fund Holdings			
Ticker	Attractive-or-better Stocks	Neutral Stocks	Dangerous-or-worse Stocks	Predictive Rating
Best Mutual Funds				
VMIAX	14%	44%	38%	Neutral
FSDPX	13%	34%	39%	Neutral
FMFEX	13%	34%	39%	Neutral
FMFAX	13%	34%	39%	Dangerous
FMFTX	13%	34%	39%	Dangerous
Worst Mutual Funds				
RYBIX	10%	36%	41%	Dangerous
FSCHX	13%	29%	37%	Dangerous
FMFCX	13%	34%	39%	Dangerous
RYBMX	10%	36%	41%	Very Dangerous
RYBCX	10%	36%	41%	Very Dangerous

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

Sources: New Constructs, LLC and company filings

PowerShares S&P SmallCap Materials Portfolio (PSCM) is the top-rated Materials ETF and Vanguard Materials Index Fund (VMIAX) is the top-rated Materials mutual fund. Both earn a Neutral rating.

SPDR S&P Metals & Mining ETF (XME) is the worst rated Materials ETF and Basic Materials Fund (RYBCX) is the worst rated Materials mutual fund. Both earn a Very Dangerous rating.

156 stocks of the 3000+ we cover are classified as Materials stocks.

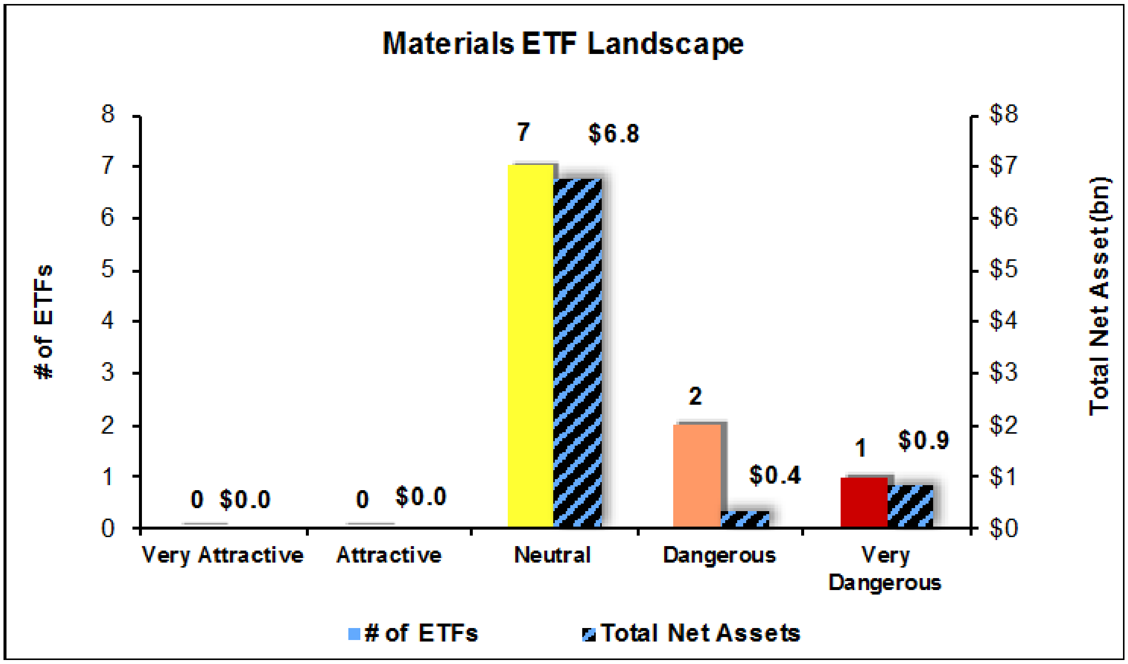
The Danger Within

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

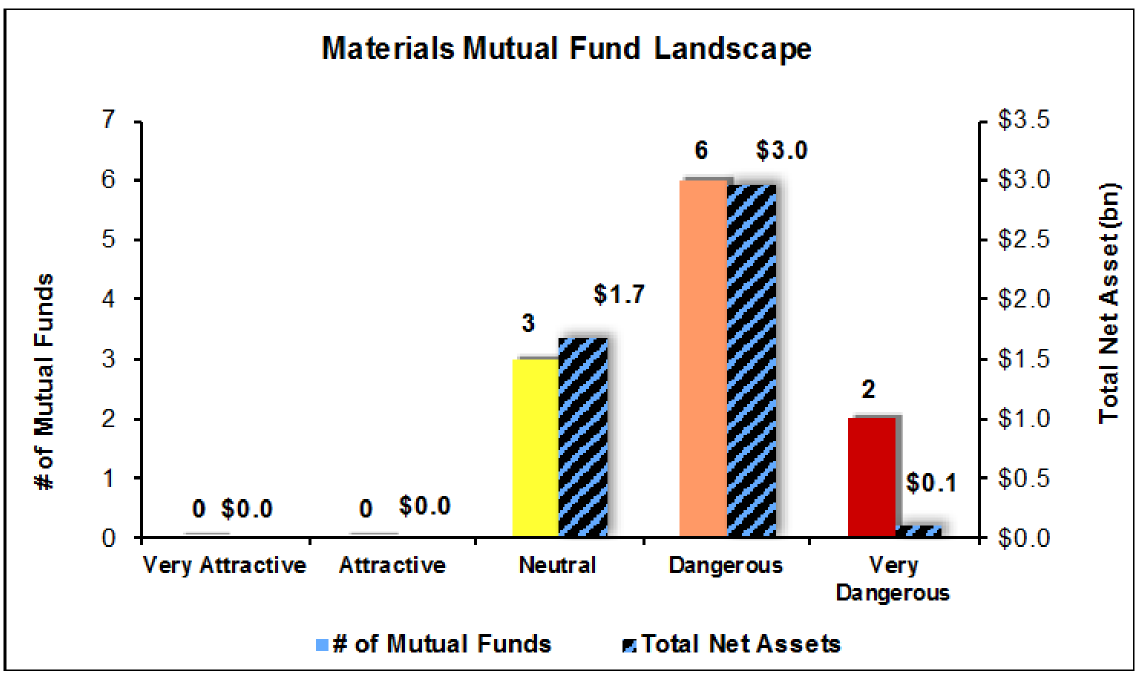
Figures 3 and 4 show the rating landscape of all Materials ETFs and mutual funds.

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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