ETF & Mutual Fund Rankings: Telecom Sector

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

Figure 1 ranks from best to worst all six Telecom Services ETFs and Figure 2 ranks from best to worst the eight Telecom Services mutual funds that meet our liquidity standards. Not all Telecom sector ETFs and mutual funds are created the same. The number of holdings varies widely (from 21 to 54). This variation creates drastically different investment implications and, therefore, ratings.

Investors seeking exposure to the Telecom 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

	Allocation of ETF Holdings			
Ticker	**Attractive-or-better Stocks**	**Neutral Stocks**	**Dangerous-or-worse Stocks**	**Predictive Rating**
Best ETFs (only 3)				
IXP	18%	53%	9%	**Attractive**
VOX	24%	36%	33%	**Neutral**
FCOM	23%	36%	33%	**Neutral**
Worst ETFs (only 3)				
XTL	15%	29%	50%	**Neutral**
IGN	27%	38%	29%	**Neutral**
IYZ	8%	32%	57%	**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

Ticker	Allocation of Mutual Fund Holdings: Attractive-or-better Stocks	Neutral Stocks	Dangerous-or-worse Stocks	Predictive Rating
Best Mutual Funds (only 3)				
VTCAX	24%	36%	33%	**Neutral**
FTUCX	14%	29%	36%	**Dangerous**
FTUIX	14%	29%	36%	**Dangerous**
Worst Mutual Funds				
FSTCX	14%	29%	36%	**Dangerous**
PRMTX	13%	21%	42%	**Dangerous**
TTMIX	13%	21%	42%	**Dangerous**
FTUAX	14%	29%	36%	**Very Dangerous**
FTUTX	14%	29%	36%	**Very Dangerous**

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

Sources: New Constructs, LLC and company filings

PFS Wireless Fund (WIREX) is excluded from Figure 2 because its total net assets (TNA) are below $100 million and do not meet our liquidity minimums.

iShares Global Telecom ETF (IXP) is the top-rated Telecom ETF and Vanguard Telecommunication Services Index Fund (VTCAX) is the top-rated Telecom mutual fund. IXP earns our Attractive rating and VTCAX earns our Neutral rating.

iShares US Telecommunications ETF (IYZ) is the worst rated Telecom ETF and Fidelity Advisor Telecommunications Fund (FTUTX) is the worst rated Telecom mutual fund. Both earn a Very Dangerous rating.

49 stocks of the 3000+ we cover are classified as Telecom stocks, but due to style drift, Telecom ETFs and mutual funds hold 54 stocks.

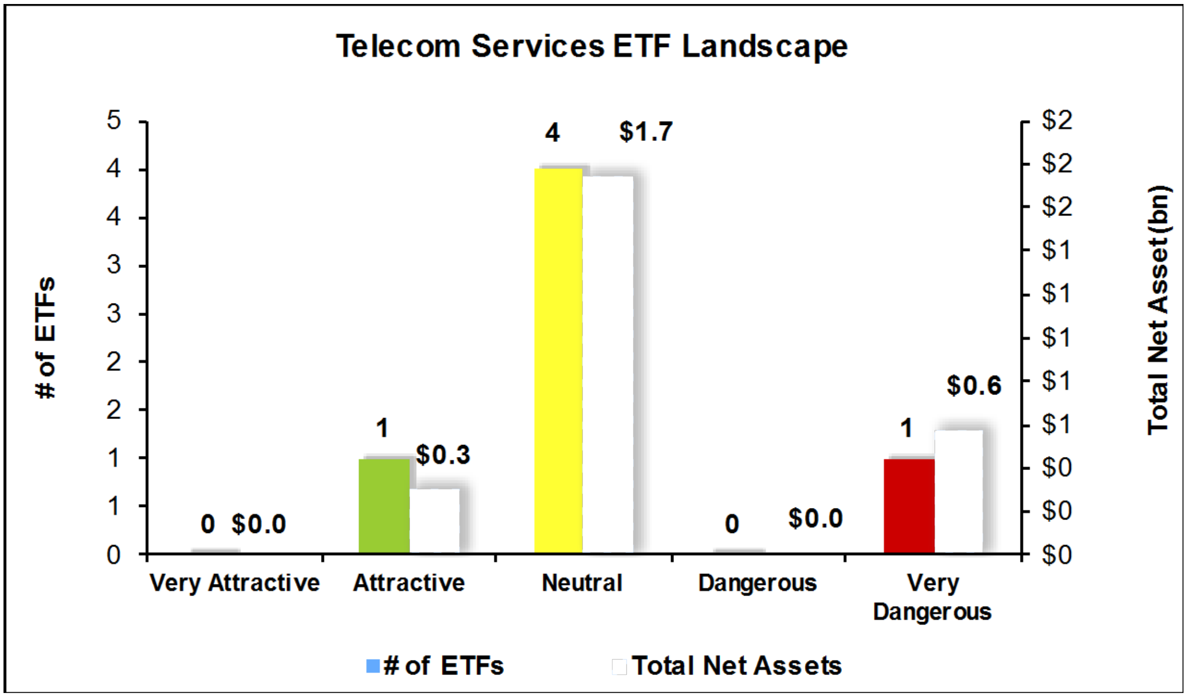
The Danger Within

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

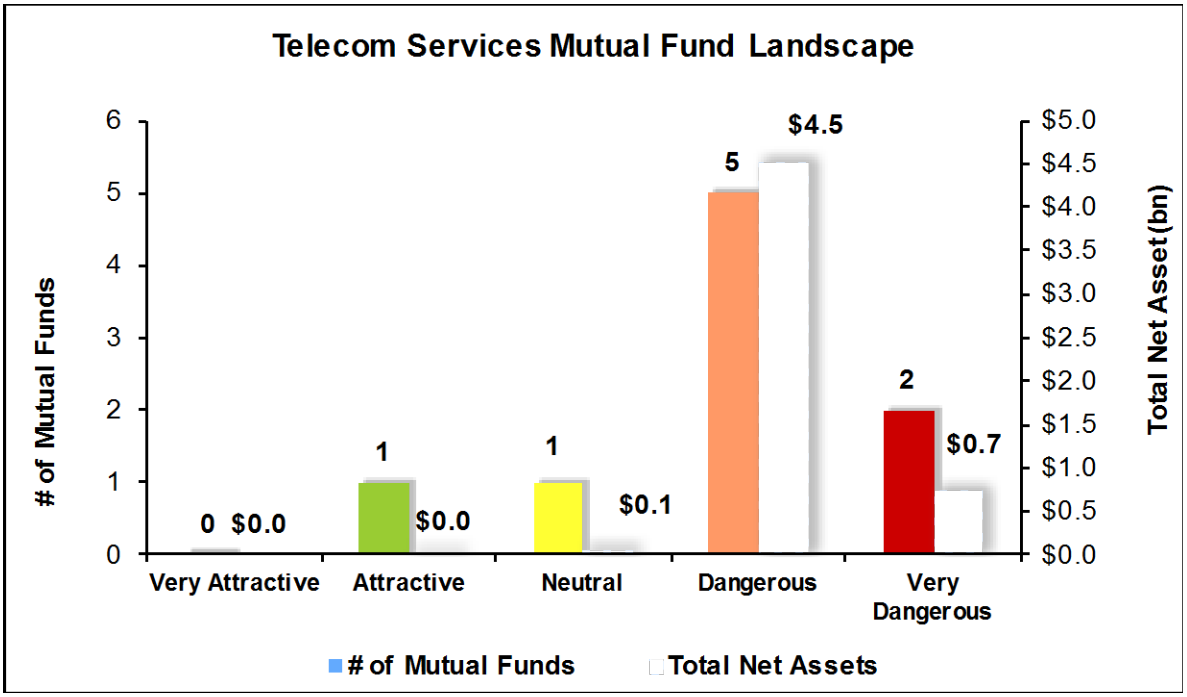
Figures 3 and 4 show the rating landscape of all Telecom ETFs and mutual funds.

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.

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