



ETF & Mutual Fund Rankings: Financials Sector

The Financials sector ranks third out of the ten sectors as detailed in our [2Q17 Sector Ratings for ETFs and Mutual Funds](#) report. [Last quarter](#), the Financials sector ranked fourth. It gets our Neutral rating, which is based on an aggregation of ratings of 36 ETFs and 234 mutual funds in the Financials sector as of April 5, 2017. See a recap of our [1Q17 Sector Ratings here](#).

Figures 1 and 2 show the five best and worst rated ETFs and mutual funds in the sector. Not all Financials sector ETFs and mutual funds are created the same. The number of holdings varies widely (from 24 to 402). This variation creates drastically different investment implications and, therefore, ratings.

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

Our [robo-analyst technology](#) empowers our unique [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				
MORT	78%	10%	8%	Very Attractive
IYG	42%	54%	4%	Very Attractive
FNCL	48%	41%	8%	Very Attractive
VFH	48%	42%	9%	Very Attractive
XLF	53%	39%	8%	Very Attractive
Worst ETFs				
VNQ	33%	29%	28%	Neutral
IAK	46%	27%	25%	Neutral
IYR	32%	26%	35%	Neutral
PSR	32%	27%	34%	Neutral
KBWD	25%	22%	30%	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				
FAFCX	45%	38%	9%	Very Attractive
FRXIX	39%	32%	22%	Very Attractive
FSRVX	39%	32%	22%	Very Attractive
FSRNX	39%	32%	22%	Very Attractive
PRISX	26%	37%	15%	Very Attractive
Worst Mutual Funds				
DAREX	22%	42%	23%	Very Dangerous
KREAX	14%	21%	33%	Very Dangerous
RYHRX	26%	27%	35%	Very Dangerous
RYCRX	26%	27%	35%	Very Dangerous
RYREX	26%	27%	35%	Very Dangerous

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

Sources: New Constructs, LLC and company filings

Fidelity SAI Real Estate Index Fund (FESIX) is excluded from Figure 2 because its total net assets (TNA) are below \$100 million and do not meet our liquidity minimums.

VanEck Vectors Mortgage REIT Income ETF (MORT) is the top-rated Financials ETF and Fidelity Advisor Financial Services Fund (FAFCX) is the top-rated Financials mutual fund. Both earn a Very Attractive rating.

PowerShares KBW High Dividend Yield Financial Portfolio (KBWD) is the worst rated Financials ETF and Rydex Real Estate Fund (RYREX) is the worst rated Financials mutual fund. Both earn a Very Dangerous rating.

604 stocks of the 3000+ we cover are classified as Financials 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.

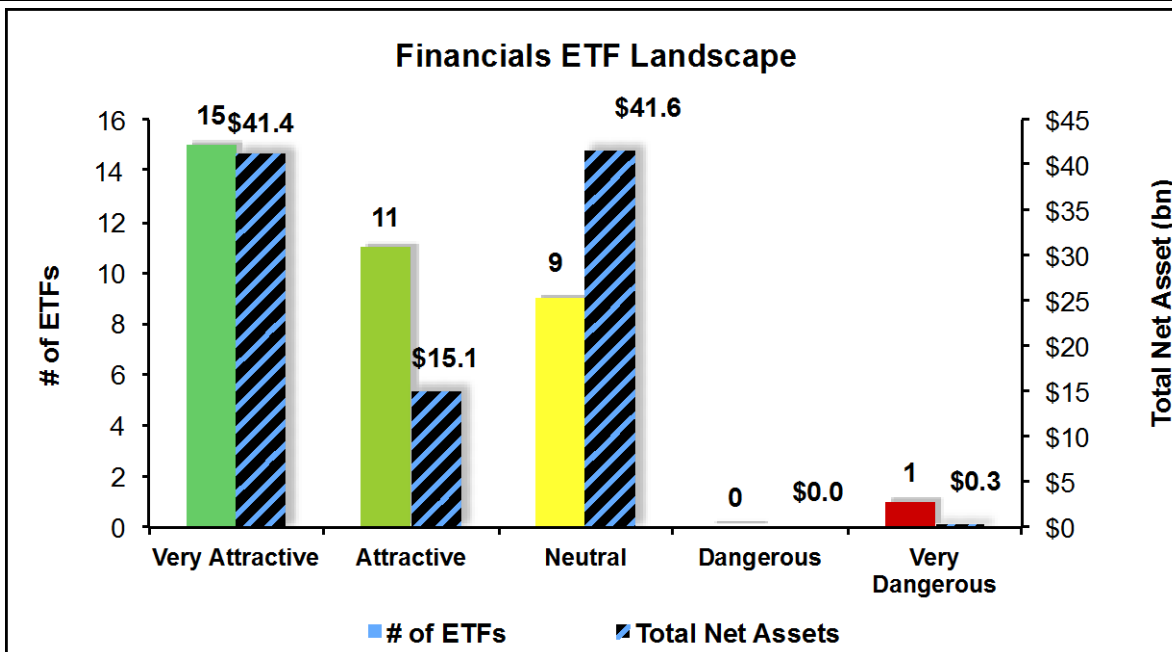
PERFORMANCE OF HOLDINGS = PERFORMANCE OF FUND

Analyzing each holding within funds is no small task. Our [robo-analyst technology](#) enables us to perform this diligence with scale and provide the [research needed](#) to fulfill the fiduciary duty of care. More of the biggest names in the financial industry (see [At BlackRock, Machines Are Rising Over Managers to Pick Stocks](#)) are now embracing technology to leverage machines in the investment research process. Investors, clients, advisors and analysts deserve the latest in technology to get the diligence required to make prudent investment decisions.



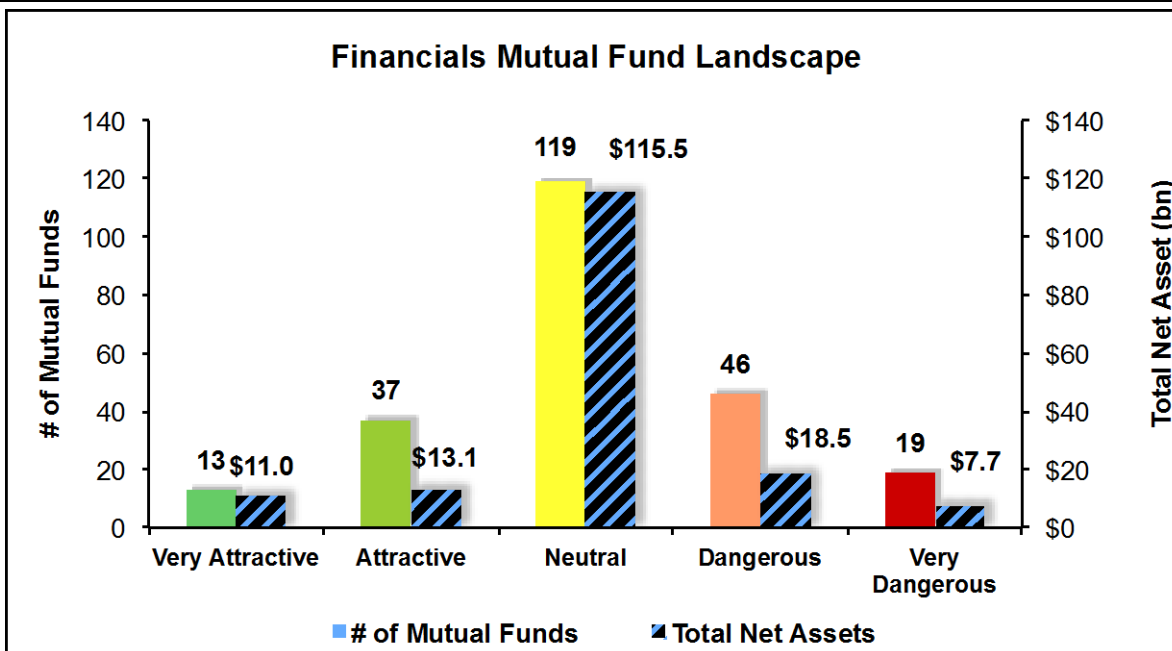
Figures 3 and 4 show the rating landscape of all Financials ETFs and mutual funds.

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

This article originally published on [April 5, 2017](#).

Disclosure: David Trainer and Kyle Guske II 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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