



## ETF & Mutual Fund Rankings: Utilities Sector

The Utilities sector ranks ninth out of the ten sectors as detailed in our [2Q17 Sector Ratings for ETFs and Mutual Funds](#) report. [Last quarter](#), the Utilities sector ranked seventh. It gets our Dangerous rating, which is based on an aggregation of ratings of nine ETFs and 35 mutual funds in the Utilities sector as of April 10, 2017. See a recap of our [1Q17 Sector Ratings here](#).

Figure 1 ranks from best to worst the seven Utilities ETFs that meet our liquidity standards and Figure 2 shows the five best and worst rated Utilities mutual funds. Not all Utilities sector ETFs and mutual funds are created the same. The number of holdings varies widely (from 16 to 76). This variation creates drastically different investment implications and, therefore, ratings.

Investors should not buy any Utilities 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.

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**

Ticker	Allocation of ETF Holdings			Predictive Rating
	Attractive-or-better Stocks	Neutral Stocks	Dangerous-or-worse Stocks	
<b>Best ETFs (only 2)</b>				
FUTY	5%	49%	44%	Neutral
VPU	5%	47%	46%	Neutral
<b>Worst ETFs</b>				
XLU	4%	49%	47%	Dangerous
RYU	6%	51%	43%	Dangerous
IDU	5%	49%	45%	Dangerous
PSCU	0%	20%	80%	Very Dangerous
FXU	8%	42%	46%	Very Dangerous

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

Sources: New Constructs, LLC and company filings

PowerShares DWA Utilities Momentum Portfolio (PUI) and Reaves Utilities ETF (UTES) are excluded from Figure 1 because their 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>				
BULIX	22%	46%	28%	<b>Neutral</b>
EVUYX	2%	51%	35%	<b>Neutral</b>
EVUDX	2%	51%	35%	<b>Neutral</b>
EVUCX	2%	51%	35%	<b>Neutral</b>
EVUBX	2%	51%	35%	<b>Neutral</b>
<b>Worst Mutual Funds</b>				
ICTVX	10%	53%	32%	<b>Very Dangerous</b>
PRUAX	1%	37%	37%	<b>Very Dangerous</b>
RYUTX	5%	48%	42%	<b>Very Dangerous</b>
FAUFX	1%	44%	43%	<b>Very Dangerous</b>
FUGAX	1%	44%	43%	<b>Very Dangerous</b>

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

Sources: New Constructs, LLC and company filings

Fidelity MSCI Utilities Index ETF (FUTY) is the top-rated Utilities ETF and American Century Quantitative Equity Utilities Fund (BULIX) is the top-rated Utilities mutual fund. Both earn a Neutral rating.

First Trust Utilities AlphaDEX Fund (FXU) is the worst rated Utilities ETF and Fidelity Advisor Utilities Fund (FUGAX) is the worst rated Utilities mutual fund. Both earn a Very Dangerous rating.

74 stocks of the 3000+ we cover are classified as Utilities stocks, but due to style drift, Utilities ETFs and mutual funds hold 76 stocks.

### The Danger Within

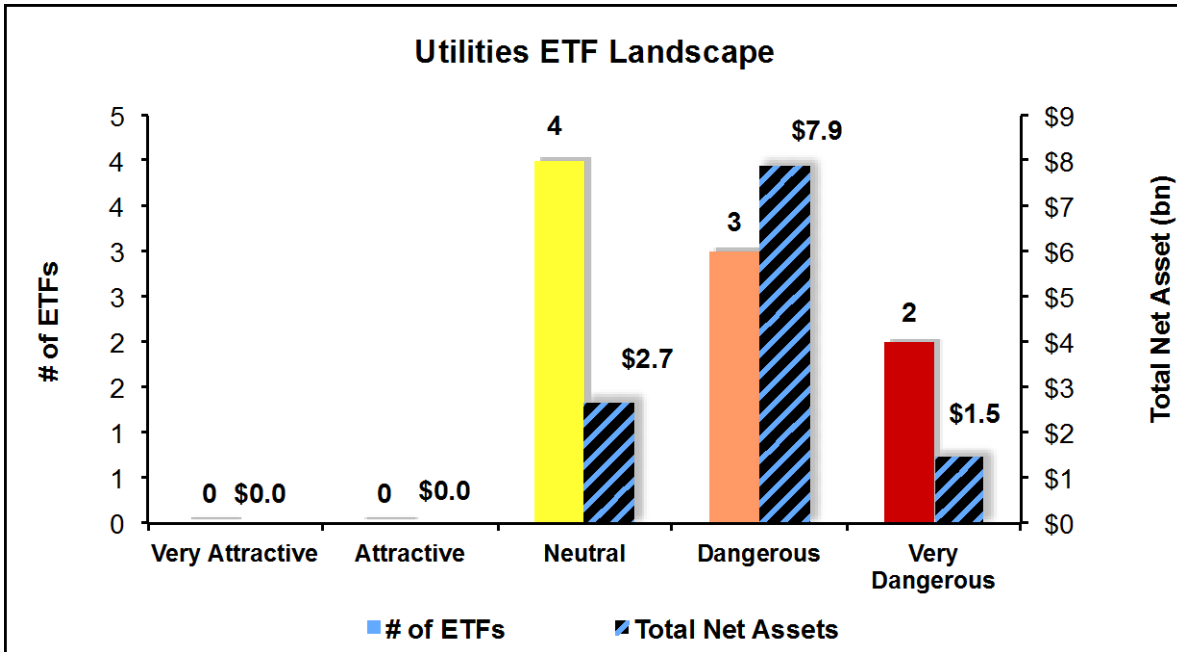
Buying a fund without analyzing its holdings is like buying a stock without analyzing its business and finances. Put another way, research on fund holdings is necessary due diligence because a fund's performance is only as good as its holdings' performance. Don't just take our word for it, [see what 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. Technology may be the only solution to the dual mandate for research: cut costs and fulfill the fiduciary duty of care. Investors, clients, advisors and analysts deserve the latest in technology to get the diligence required to make prudent investment decisions.

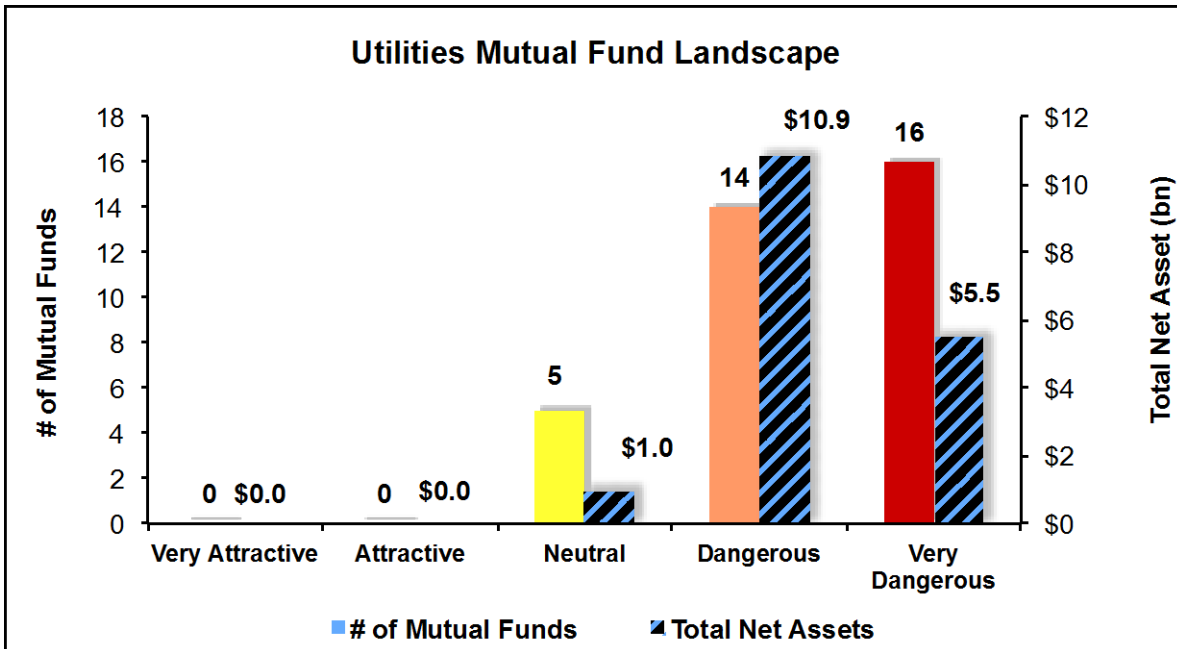
Figures 3 and 4 show the rating landscape of all Utilities ETFs and mutual funds.

**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 and Kyle Guske II receive no compensation to write about any specific stock, sector or theme.

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## ***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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