



## Sector Ratings For ETFs & Mutual Funds

At the beginning of the third quarter of 2017, only the Consumer Staples sector earns an Attractive-or-better rating. Our sector ratings are based on the aggregation of our fund ratings for every ETF and mutual fund in each sector. See last quarter's Sector Ratings [here](#).

Investors looking for sector funds that hold quality stocks should look no further than the Consumer Staples and Information Technology sectors. These sectors house the highest rated funds. Figures 4 through 7 provide more details. The primary driver behind an Attractive fund rating is good [portfolio management](#), or good stock picking, with low [total annual costs](#).

Attractive-or-better ratings do not always correlate with Attractive-or-better total annual costs. This fact underscores that (1) [cheap funds can dupe investors](#) and (2) investors should invest only in funds with good stocks and low fees.

Our [Robo-Analyst technology](#) empowers our unique [ETF and mutual fund rating methodology](#), which leverages our rigorous analysis of each fund's holdings. See Figures 4 through 13 for a detailed breakdown of ratings distributions by sector. See our [ETF & mutual fund screener](#) for rankings, ratings and reports on 7000+ mutual funds and 400+ ETFs.

All of our reports on the best & worst ETFs and mutual funds in every sector are available [here](#).

**Figure 1: Ratings For All Sectors**

Sector	Overall Rating
Energy	Very Dangerous
Telecom	Dangerous
Health Care	Dangerous
Materials	Neutral
Cons Disc	Neutral
Utilities	Neutral
Industrials	Neutral
Financials	Neutral
Info Tech	Neutral
Cons Staples	Very Attractive

Source: New Constructs, LLC and company filings

To earn an Attractive-or-better Predictive Rating, an ETF or mutual fund must have high-quality holdings and low costs. Only the top 30% of all ETFs and mutual funds earn our Attractive or better ratings.

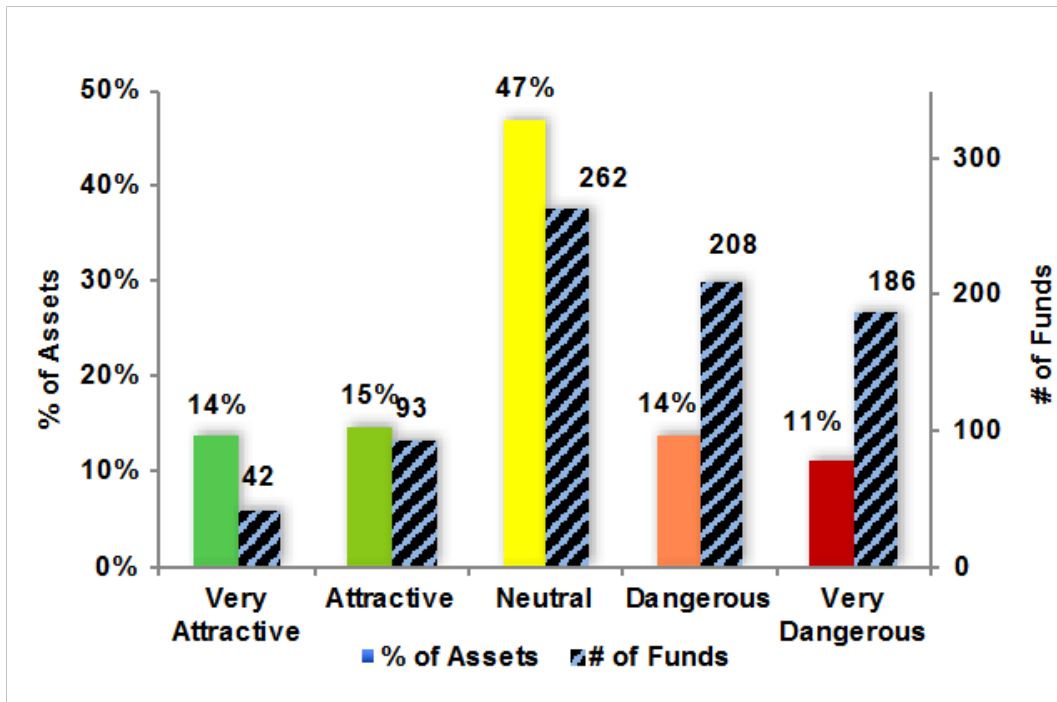
PowerShares Dynamic Food & Beverage Portfolio (PBJ) is the top rated Consumer Staples fund. It gets our Very Attractive rating by allocating over 43% of its value to Attractive-or-better-rated stocks.

First Trust Energy AlphaDEX Fund (FXN) is the worst Energy fund. It gets our Very Dangerous rating by allocating over 76% of its value to Dangerous-or-worse-rated stocks. Making matters worse, it charges investors annual costs of 0.69%.



Figure 2 shows the distribution of our Predictive Ratings for all sector ETFs and mutual funds.

**Figure 2: Distribution of ETFs & Mutual Funds (Assets and Count) by Predictive Rating**



Source: New Constructs, LLC and company filings

Figure 3 offers additional details on the quality of the sector funds. Note that the average total annual cost of Very Dangerous funds is almost five times that of Very Attractive funds.

**Figure 3: Predictive Rating Distribution Stats**

	Very Attractive	Attractive	Neutral	Dangerous	Very Dangerous
<b># of ETFs &amp; Funds</b>	42	93	262	208	186
<b>% of ETFs &amp; Funds</b>	5%	12%	33%	26%	24%
<b>% of TNA</b>	14%	15%	47%	14%	11%
<b>Avg TAC</b>	0.24%	0.38%	0.60%	1.29%	1.15%

\* Avg TAC = Weighted Average Total Annual Costs

Source: New Constructs, LLC and company filings

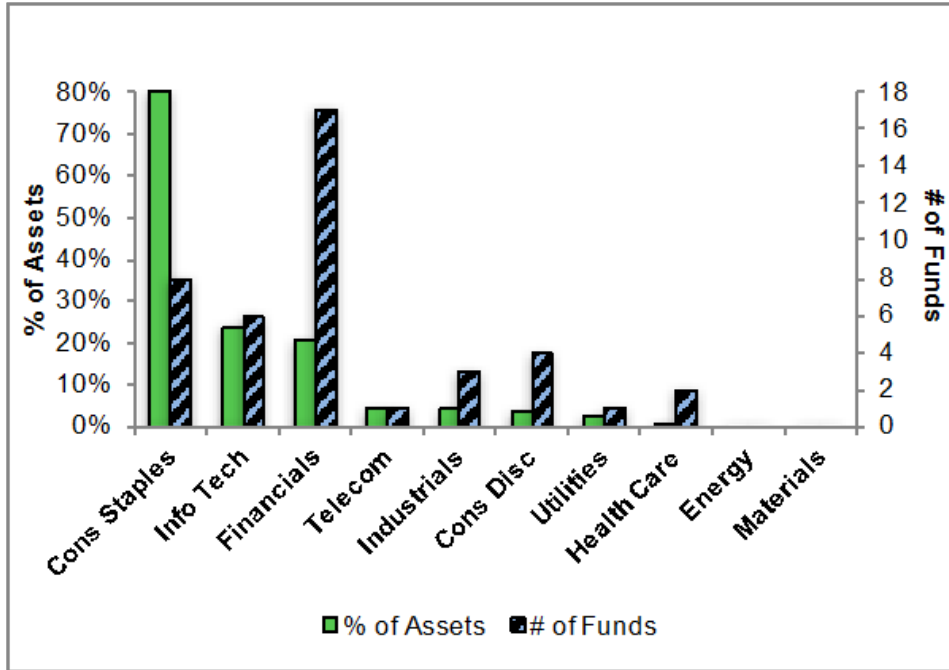
This table shows that only the best of the best funds get our Very Attractive Rating: they must hold good stocks AND have low costs. Investors deserve to have the best of both and we are here to give it to them.



**Ratings by Sector**

Figure 4 presents a mapping of Very Attractive funds by sector. The chart shows the number of Very Attractive funds in each sector and the percentage of assets in each sector allocated to funds that are rated Very Attractive.

**Figure 4: Very Attractive ETFs & Mutual Funds by Sector**



Source: New Constructs, LLC and company filings

Figure 5 presents the data charted in Figure 4.

**Figure 5: Very Attractive ETFs & Mutual Funds by Sector**

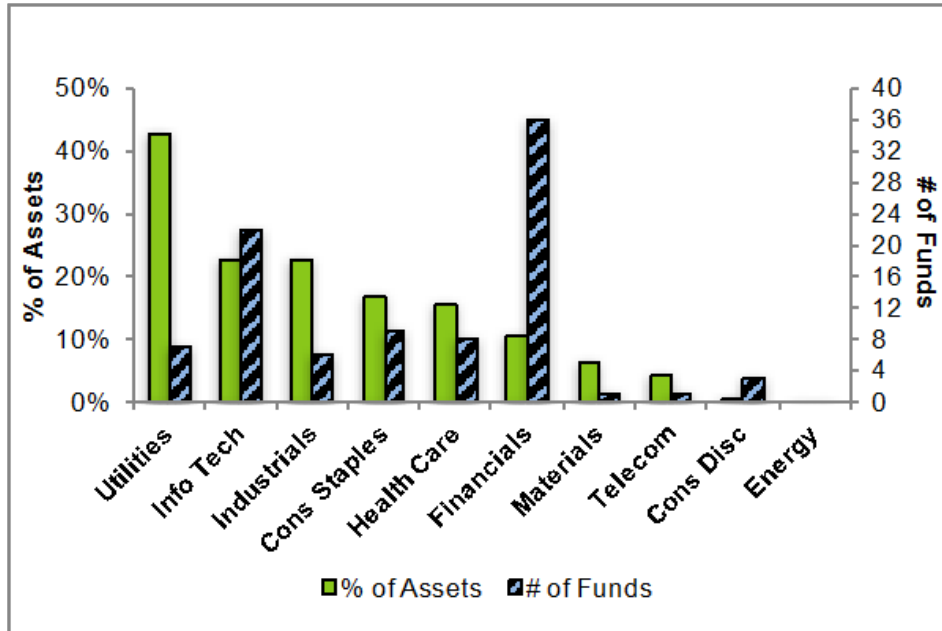
Sector	% of Sector Assets	# of Very Attractive Funds	% of Very Attractive Funds in Sector
Cons Staples	80%	8	35%
Info Tech	24%	6	4%
Financials	21%	17	6%
Telecom	4%	1	7%
Industrials	4%	3	7%
Cons Disc	4%	4	15%
Utilities	2%	1	3%
Health Care	0%	2	2%
Energy	0%	0	0%
Materials	0%	0	0%

Source: New Constructs, LLC and company filings



Figure 6 presents a mapping of Attractive funds by sector. The chart shows the number of Attractive funds in each sector and the percentage of assets allocated to Attractive-rated funds in each sector.

**Figure 6: Attractive ETFs & Mutual Funds by Sector**



Source: New Constructs, LLC and company filings

Figure 7 presents the data charted in Figure 6.

**Figure 7: Attractive ETFs & Mutual Funds by Sector**

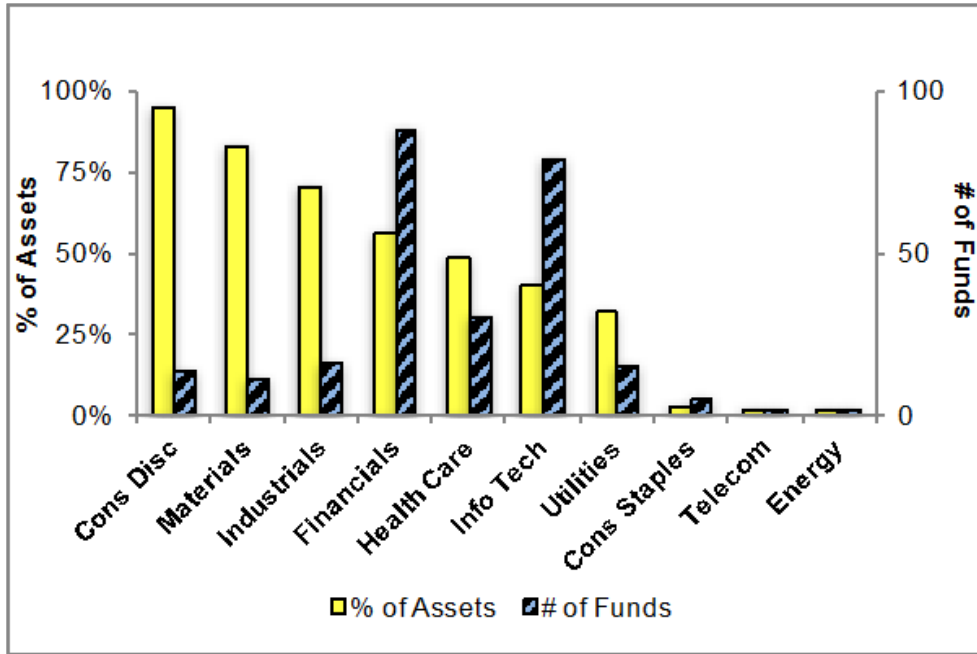
Sector	% of Sector Assets	# of Attractive Funds	% of Attractive Funds in Sector
Utilities	43%	7	18%
Info Tech	23%	22	15%
Industrials	23%	6	14%
Cons Staples	17%	9	39%
Health Care	16%	8	8%
Financials	11%	36	13%
Materials	6%	1	5%
Telecom	4%	1	7%
Cons Disc	1%	3	11%
Energy	0%	0	0%

Source: New Constructs, LLC and company filings



Figure 8 presents a mapping of Neutral funds by sector. The chart shows the number of Neutral funds in each sector and the percentage of assets allocated to Neutral-rated funds in each sector.

**Figure 8: Neutral ETFs & Mutual Funds by Sector**



Source: New Constructs, LLC and company filings

Figure 9 presents the data charted in Figure 8.

**Figure 9: Neutral ETFs & Mutual Funds by Sector**

Sector	% of Sector Assets	# of Neutral Funds	% of Neutral Funds in Sector
Cons Disc	95%	14	52%
Materials	83%	11	52%
Industrials	71%	16	38%
Financials	57%	88	33%
Health Care	49%	30	29%
Info Tech	41%	79	54%
Utilities	32%	15	38%
Cons Staples	3%	5	22%
Telecom	2%	2	13%
Energy	2%	2	2%

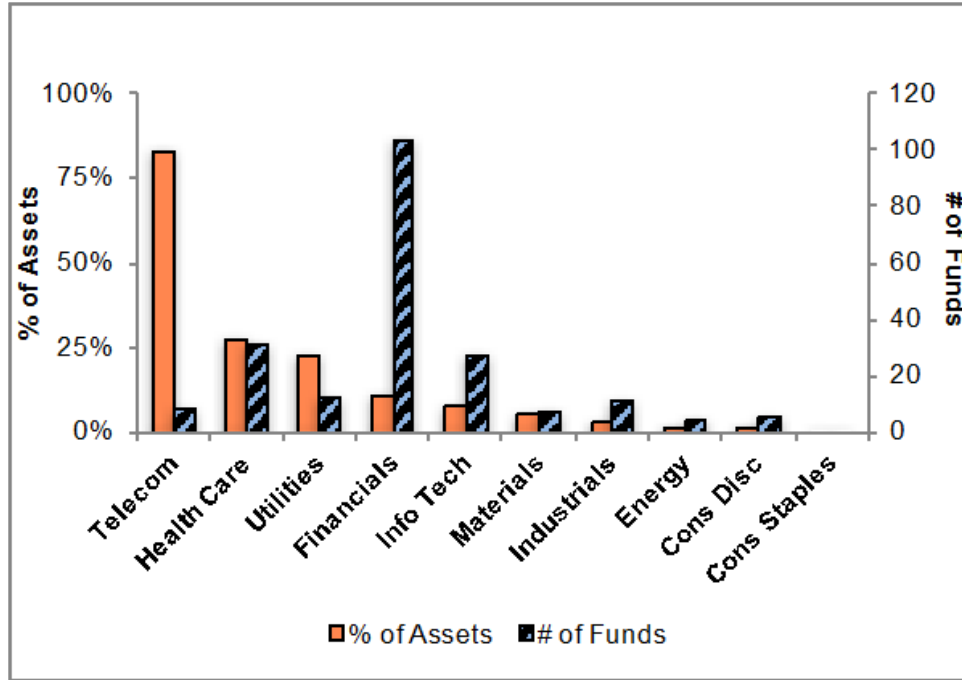
Source: New Constructs, LLC and company filings



Figure 10 presents a mapping of Dangerous funds by fund sector. The chart shows the number of Dangerous funds in each sector and the percentage of assets allocated to Dangerous-rated funds in each sector.

The landscape of sector ETFs and mutual funds is littered with Dangerous funds. Investors in Telecom Services have put over 83% of their assets in Dangerous-rated funds.

**Figure 10: Dangerous ETFs & Mutual Funds by Sector**



Source: New Constructs, LLC and company filings

Figure 11 presents the data charted in Figure 10.

**Figure 11: Dangerous ETFs & Mutual Funds by Sector**

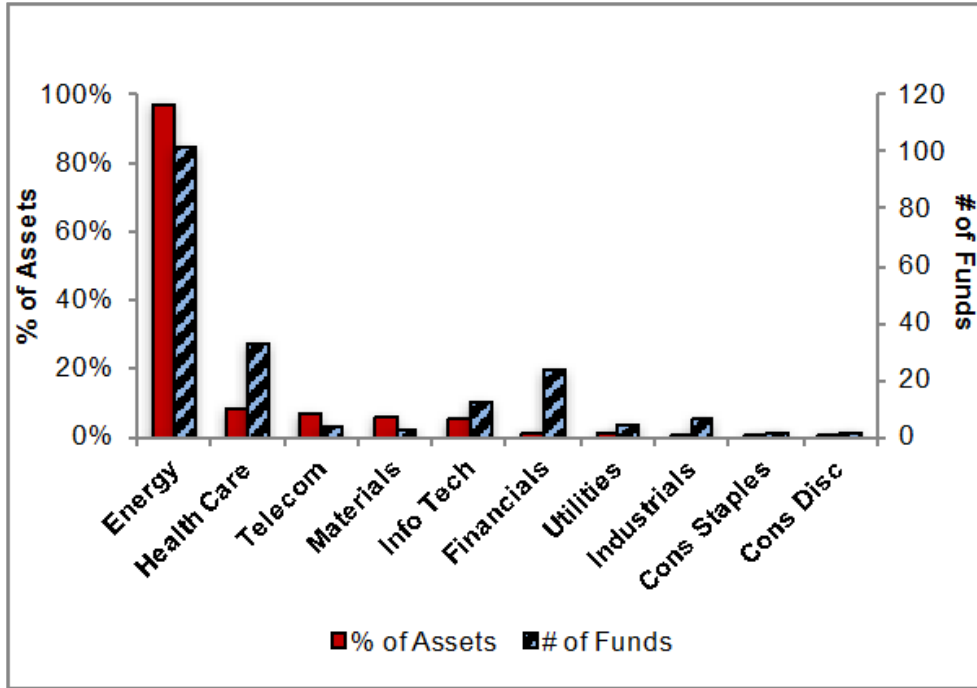
Sector	% of Sector Assets	# of Dangerous Funds	% of Dangerous Funds in Sector
Telecom	83%	8	53%
Health Care	27%	31	30%
Utilities	23%	12	31%
Financials	11%	103	39%
Info Tech	8%	27	18%
Materials	5%	7	33%
Industrials	3%	11	26%
Energy	1%	4	4%
Cons Disc	1%	5	19%
Cons Staples	0%	0	0%

Source: New Constructs, LLC and company filings



Figure 12 presents a mapping of Very Dangerous funds by fund sector. The chart shows the number of Very Dangerous funds in each sector and the percentage of assets in each sector allocated to funds that are rated Very Dangerous.

**Figure 12: Very Dangerous ETFs & Mutual Funds by Sector**



Source: New Constructs, LLC and company filings

Figure 13 presents the data charted in Figure 12.

**Figure 13: Very Dangerous ETFs & Mutual Funds by Sector**

Sector	% of Sector Assets	# of Very Dangerous Funds	% of Very Dangerous Funds in Sector
Energy	97%	101	94%
Health Care	8%	33	32%
Telecom	6%	3	20%
Materials	6%	2	10%
Info Tech	5%	12	8%
Financials	1%	23	9%
Utilities	1%	4	10%
Industrials	0%	6	14%
Cons Staples	0%	1	4%
Cons Disc	0%	1	4%

Source: New Constructs, LLC and company filings

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*Disclosure: David Trainer, Kyle Guske II, and Kenneth James receive no compensation to write about any specific stock, sector or theme.*

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## Appendix: Predictive Fund Rating System

New Constructs' [Predictive fund Ratings](#) enable smarter investing by assessing the key drivers of future fund performance. We start by analyzing every funds' holdings based on New Constructs' stock ratings, which are regularly featured as among the [best by Barron's](#). Next, we measure and rank the all-in fund expenses. Finally, we rank the fund compared to all other funds to identify the best and worst funds in the market.

Intuitively, there are two drivers for future fund performance.

1. Stock-picking ([Portfolio Management Rating](#)) and
2. Fund expenses ([Total Annual Costs Rating](#))

Our Predictive Fund Rating is based on these drivers and the fund's ranking:

1. Top 10% = Very Attractive Rating
2. Next 20% = Attractive Rating
3. Next 40% = Neutral Rating
4. Next 20% = Dangerous Rating
5. Bottom 10% = Very Dangerous Rating

The figure below details the criteria that drive our Predictive Rating system for funds. The two drivers of our predictive ratings system are Portfolio Management and Total Annual Costs. The Portfolio Management ratings (detail [here](#)) is the same as our Stock Rating (detail [here](#)) except that we incorporate Asset Allocation (details [here](#)). The Total Annual Costs Ratings (details [here](#)) captures the all-in costs of being in a fund over a 3-year holding period, the average period for all mutual funds.

Predictive Rating	Portfolio Management Rating					Cash Allocation	Total Annual Costs
	Business Strength		Valuation				
	Quality of Earnings	Return on Invested Capital	FCF Yield	Price to Economic Book Value	Market-Implied Duration of Growth		
<b>Very Dangerous</b>	Misleading Trend	Bottom Quintile	< -5%	>3.5 or -1<0	> 50	> 20%	> 4 %
<b>Dangerous</b>	False Positive	4th Quintile	-5% < -1%	2.4<3.5 or <-1	20 < 50	8% < 20%	2% < 4%
<b>Neutral</b>	Neutral EE	3rd Quintile	-1% < 3%	1.6 < 2.4	10 < 20	2.5% < 8%	1% < 2%
<b>Attractive</b>	Positive EE	2nd Quintile	3% < 10%	1.1 < 1.6	3 < 10	1% < 2.5%	0.5% < 1%
<b>Very Attractive</b>	Rising EE	Top Quintile	> 10%	0 < 1.1	0 < 3	<1%	< 0.5%



## ***New Constructs® - Research to Fulfill the Fiduciary Duty of Care***

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Ratings & screeners on 3000 stocks, 450 ETFs and 7000 mutual funds help you make prudent investment decisions.

New Constructs leverages the latest in machine learning to analyze structured and unstructured financial data with unrivaled speed and accuracy. The firm's forensic accounting experts work alongside engineers to develop proprietary NLP libraries and financial models. Our investment ratings are based on the best fundamental data in the business for stocks, ETFs and mutual funds. Clients include many of the top hedge funds, mutual funds and wealth management firms. David Trainer, the firm's CEO, is regularly featured in the media as a thought leader on the fiduciary duty of care, earnings quality, valuation and investment strategy.

### ***To fulfill the Duty of Care, research should be:***

1. **Comprehensive** - All relevant publicly-available (e.g. 10-Ks and 10-Qs) information has been diligently reviewed, including footnotes and the management discussion & analysis (MD&A).
2. **Un-conflicted** - Clients deserve unbiased research.
3. **Transparent** - Advisors should be able to show how the analysis was performed and the data behind it.
4. **Relevant** - Empirical evidence must provide [tangible, quantifiable correlation](#) to stock, ETF or mutual fund performance.

### ***Value Investing 2.0: Diligence Matters: Technology is Key to Value Investing With Scale***

Accounting data is only the beginning of fundamental research. It must be translated into economic earnings to truly understand profitability and valuation. This translation requires deep analysis of footnotes and the MD&A, a process that our [robo-analyst technology](#) empowers us to perform for thousands of stocks, ETFs and mutual funds.

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