ETF & Mutual Fund Rankings: Information Technology Sector

The Information Technology sector ranks third out of the 11 sectors as detailed in our 4Q17 Sector Ratings for ETFs and Mutual Funds report. Last quarter, the Information Technology sector ranked second. It gets our Neutral rating, which is based on an aggregation of ratings of 27 ETFs and 123 mutual funds in the Information Technology sector as of October 10, 2017. See a recap of our 3Q17 Sector Ratings here.

Figures 1 and 2 show the five best and worst rated ETFs and mutual funds in the sector. Not all Information Technology sector ETFs and mutual funds are created the same. The number of holdings varies widely (from 25 to 366). This variation creates drastically different investment implications and, therefore, ratings.

Investors seeking exposure to the Information Technology 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.[1] 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**	**Unattractive-or-worse Stocks**	**Predictive Rating**
		Best ETFs		
IXN	24%	46%	9%	Very Attractive
TDIV	42%	41%	14%	Very Attractive
FTEC	28%	53%	18%	Very Attractive
VGT	28%	53%	18%	Very Attractive
XLK	31%	57%	11%	Very Attractive
		Worst ETFs		
PSCT	19%	28%	51%	Neutral
XSD	19%	25%	55%	Neutral
FDN	16%	26%	55%	Unattractive
ARKW	6%	20%	50%	Unattractive
ARKK	3%	15%	54%	Very Unattractive

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

Sources: New Constructs, LLC and company filings

[1] Ernst & Young's recent white paper "Getting ROIC Right" proves the superiority of our holdings research and analytics.

Figure 2: Mutual Funds with the Best & Worst Ratings – Top 5

	Allocation of Mutual Fund Holdings			
Ticker	**Attractive-or-better Stocks**	**Neutral Stocks**	**Unattractive-or-worse Stocks**	**Predictive Rating**
Best Mutual Funds				
FSDCX	47%	24%	24%	Very Attractive
VITAX	28%	53%	18%	Very Attractive
FDCPX	26%	35%	19%	Attractive
NWHQX	34%	40%	17%	Attractive
NWHTX	34%	40%	17%	Attractive
Worst Mutual Funds				
USTBX	15%	25%	47%	Unattractive
UNSCX	15%	25%	47%	Very Unattractive
IFOAX	13%	36%	44%	Very Unattractive
WFSTX	15%	37%	36%	Very Unattractive
RAGTX	15%	35%	39%	Very Unattractive

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

Sources: New Constructs, LLC and company filings

Fidelity Advisor Communications Equipment Fund (FDMIX, FDMCX), and Saratoga Advantage Technology & Communications Portfolio (STPIX) are excluded from Figure 2 because their total net assets (TNA) are below $100 million and do not meet our liquidity minimums.

iShares Global Tech ETF (IXN) is the top-rated Information Technology ETF and Fidelity Select Communications Equipment Portfolio (FSDCX) is the top-rated Information Technology mutual fund. Both earn a Very Attractive rating.

ARK Innovation ETF (ARKK) is the worst rated Information Technology ETF and AllianzGI Technology Fund (RAGTX) is the worst rated Information Technology mutual fund. Both earn a Very Unattractive rating.

482 stocks of the 3000+ we cover are classified as Information Technology stocks.

The Danger Within

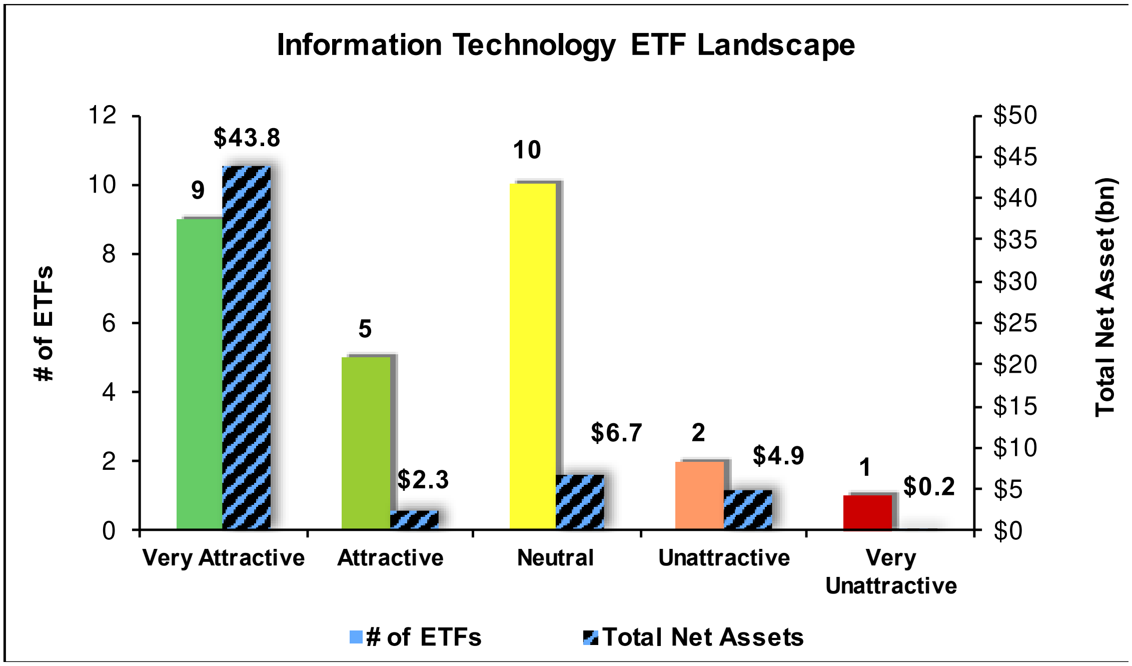
Buying a fund without analyzing its holdings is like buying a stock without analyzing its business and finances. Put another way, research on fund holdings is necessary due diligence because a fund's performance is only as good as its holdings' performance. Don't just take our word for it, see what Barron's 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.

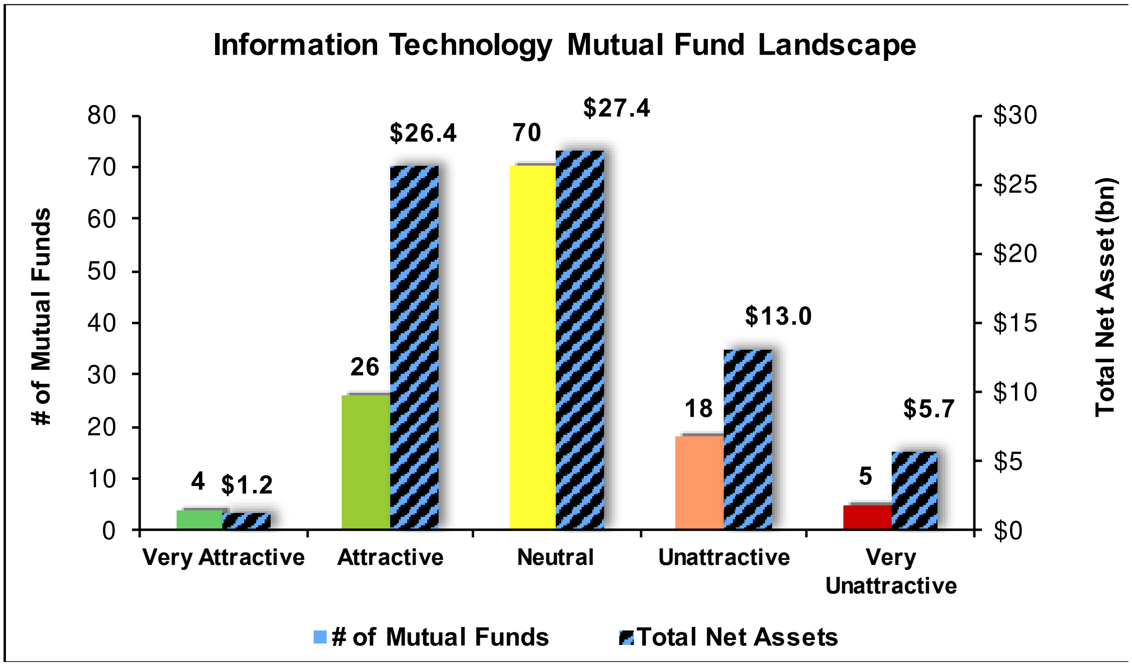
Figures 3 and 4 show the rating landscape of all Information Technology ETFs and mutual funds.

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 II, and Kenneth James receive no compensation to write about any specific stock, sector or theme.

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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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