



How To Find the Best Sector Mutual Funds 1Q18

Finding the best mutual funds is an increasingly difficult task in a world with so many to choose from. How can you pick with so many choices available?

Don't Trust Mutual Fund Labels

There are at least 194 different Real Estate mutual funds and at least 624 mutual funds across eleven sectors. Do investors need 57 choices on average per sector? How different can the mutual funds be?

Those 194 Real Estate mutual funds are very different. With anywhere from 24 to 157 holdings, many of these Real Estate mutual funds have drastically different portfolios, creating drastically different investment implications.

The same is true for the mutual funds in any other sector, as each offers a very different mix of good and bad stocks. Consumer Non-cyclicals rank first for stock selection. Energy rank last. Details on the [Best & Worst mutual funds in each sector are here.](#)

How to Avoid Paralysis By Analysis

We think the large number of Real Estate (or any other) sector mutual funds hurts investors more than it helps because too many options can be paralyzing. It is simply not possible for the majority of investors to properly assess the quality of so many mutual funds. Analyzing mutual funds, done with the proper diligence, is far more difficult than analyzing stocks because it means analyzing all the stocks within each mutual fund. As stated above, that can be as many as 177 stocks, and sometimes even more, for one mutual fund.

Anyone focused on [fulfilling the fiduciary duty of care](#) recognizes that analyzing the holdings¹ of a mutual fund is critical to finding the best mutual fund. Figure 1 shows our top rated mutual fund for each sector.

Figure 1: The Best Mutual Fund in Each Sector

Ticker	Name	Sector	Assets (\$mm)
FSCHX	Fidelity Chemicals Portfolio	Basic Materials	\$1,886
FDLSX	Fidelity Select Leisure Portfolio	Consumer Cyclicals	\$535
VCSAX	Vanguard Consumer Staples Index Fund	Consumer Non-cyclicals	\$4,671
VENAX	Vanguard Energy Index Fund	Energy	\$4,698
FSVLX	Fidelity Consumer Finance Portfolio	Financials	\$103
PHSYX	Putnam Global Health Care Fund	Healthcare	\$1,379
FSLEX	Fidelity Environment and Alternative Energy Portfolio	Industrials	\$185
CGMRX	CGM Realty Fund	Real Estate	\$848
FSDCX	Fidelity Communications Equipment Portfolio	Technology	\$187
FWRLX	Fidelity Wireless Portfolio	Telecom Services	\$277
BULIX	American Century Quantitative Equity Funds: Utilities	Utilities	\$482

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.



Amongst the mutual funds in Figure 1, Fidelity Select Consumer Finance Portfolio (FSVLX) ranks first overall, Vanguard Consumer Staples Index (VCSAX) ranks second, and Fidelity Communications Equipment Portfolio (FSDCX) ranks third. Vanguard Energy Index Fund (VENAX) ranks last.

How to Avoid “The Danger Within”

Why do you need to know the holdings of mutual funds before you buy?

You need to be sure you do not buy a fund that might blow up. Buying a fund without analyzing its holdings is like buying a stock without analyzing its business and finances. No matter how cheap, if it holds bad stocks, the mutual fund's performance will be bad. Don't just take my word for it, see [what Barron's says](#) on this matter.

PERFORMANCE OF FUND'S 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.² 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.

If Only Investors Could Find Funds Rated by Their Holdings

Our [mutual fund ratings](#) leverage our [stock coverage](#). We rate mutual funds based on the aggregated ratings of the stocks each mutual fund holds.

Fidelity Consumer Finance Portfolio (FSVLX) is not only the top-rated Financials mutual fund, but is also the overall best sector mutual fund out of the 624 sector mutual funds that we cover.

The worst mutual fund in Figure 1 is Vanguard Energy Index Fund (VENAX), which gets a Very Unattractive rating. One would think mutual fund providers could do better for this sector.

This article originally published on [January 29, 2018](#).

Disclosure: David Trainer, Peter Apockotos, and Kyle Guske II 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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