



## Sector Ratings for ETFs & Mutual Funds

At the beginning of the first quarter of 2018, only the Consumer Non-cyclicals and Financials sectors earn 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.

Investors looking for sector funds that hold quality stocks should look no further than the Consumer Non-cyclicals and Financials 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.<sup>1</sup>

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. Our fund rating methodology is detailed [here](#).

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 Unattractive
Real Estate	Unattractive
Basic Materials	Unattractive
Telecom	Unattractive
Utilities	Unattractive
Healthcare	Neutral
Cons Cyclicals	Neutral
Industrials	Neutral
Technology	Neutral
Financials	Attractive
Cons Non-cyclicals	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.

John Hancock Multifactor Consumer Staples ETF (JHMS) is the top rated Consumer Non-cyclicals fund. It gets our Very Attractive rating by allocating over 45% of its value to Attractive-or-better-rated stocks.

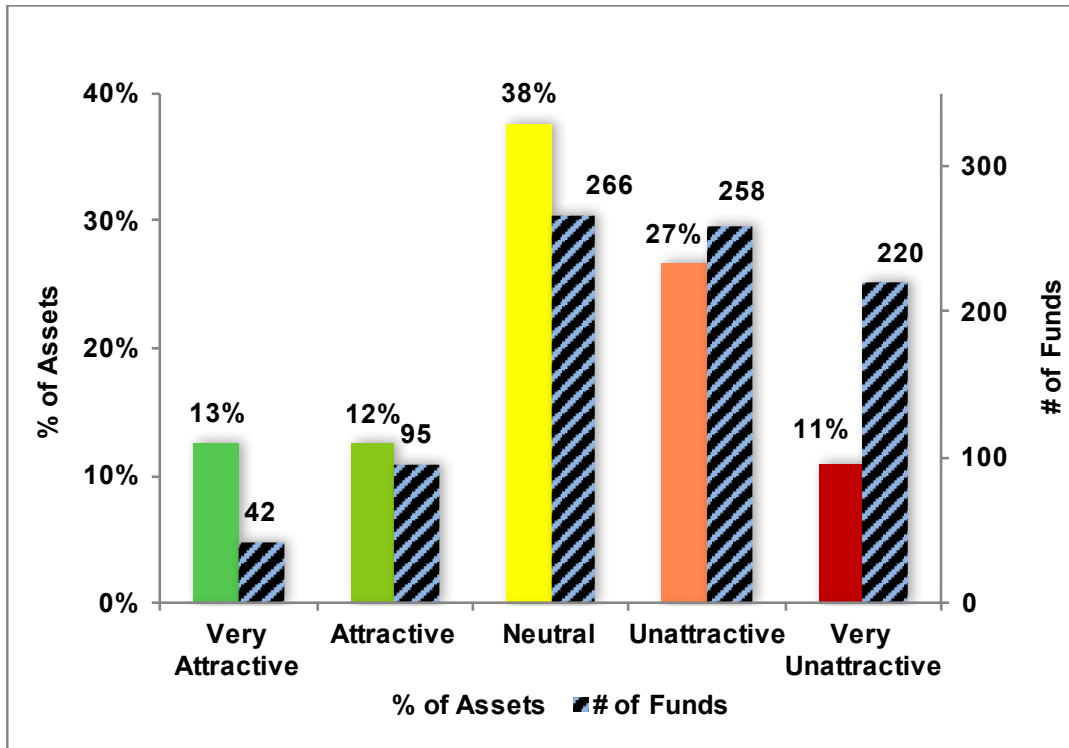
Saratoga Energy and Basic Materials Portfolio (SBMBX) is the worst Energy fund. It gets our Very Unattractive rating by allocating over 66% of its value to Unattractive-or-worse-rated stocks. Making matters worse, it charges investors annual costs of 6.94%.

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

<sup>1</sup> Ernst & Young's recent white paper "[Getting ROIC Right](#)" proves the superiority of our holdings research and analytics.



**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 Unattractive funds is almost five times that of Very Attractive funds.

**Figure 3: Predictive Rating Distribution Stats**

	Very Attractive	Attractive	Neutral	Unattractive	Very Unattractive
<b># of ETFs &amp; Funds</b>	42	95	266	258	220
<b>% of ETFs &amp; Funds</b>	5%	11%	30%	29%	25%
<b>% of TNA</b>	13%	12%	38%	27%	11%
<b>Avg TAC</b>	0.26%	0.42%	0.78%	0.72%	1.16%

\* Avg TAC = Weighted Average Total Annual Costs

Source: New Constructs, LLC and company filings

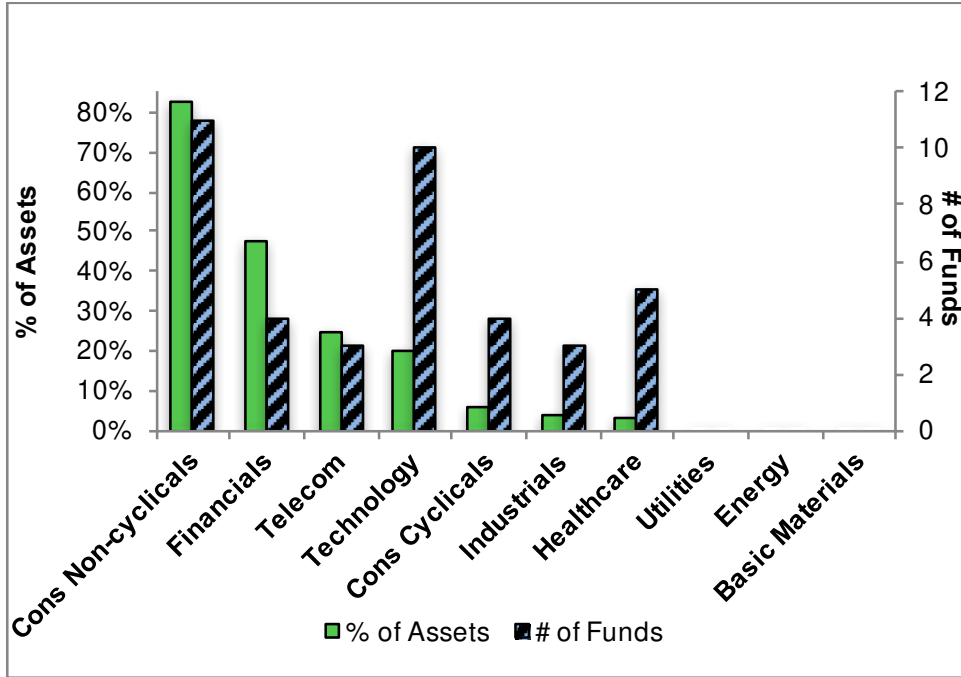
This table shows that only the best of the best funds get our Very Attractive Rating: they must hold good stocks AND have low costs. Investors deserve to have the best of both and we are here to give it to them.



**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**

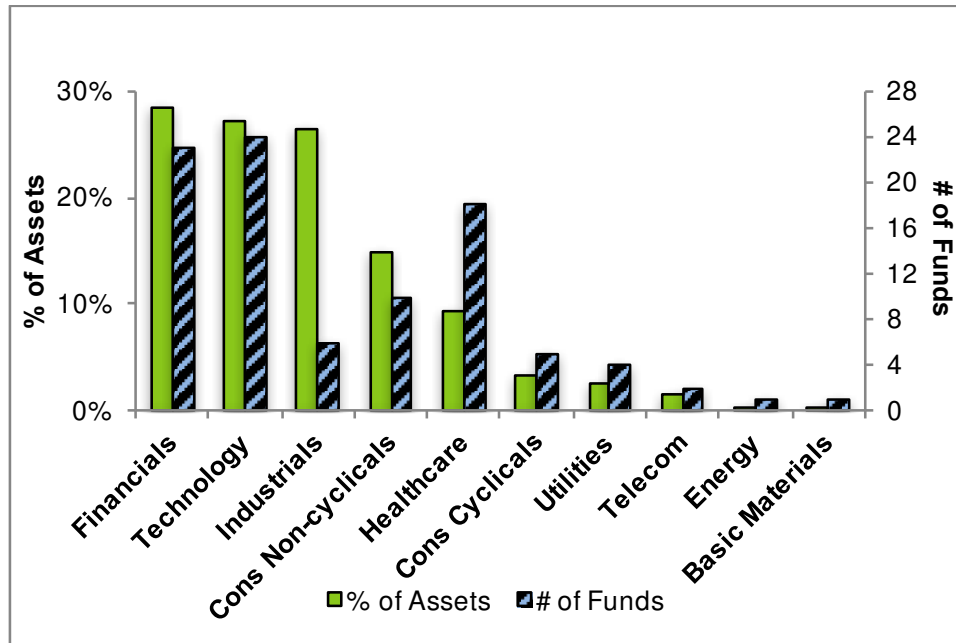
Sector	% of Sector Assets	# of Very Attractive Funds	% of Very Attractive Funds in Sector
Cons Non-cyclicals	83%	11	41%
Financials	48%	4	6%
Telecom	25%	3	21%
Technology	20%	10	6%
Cons Cyclical	5%	4	15%
Industrials	4%	3	7%
Healthcare	3%	5	4%
Utilities	0%	0	0%
Energy	0%	0	0%
Basic Materials	0%	0	0%

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**

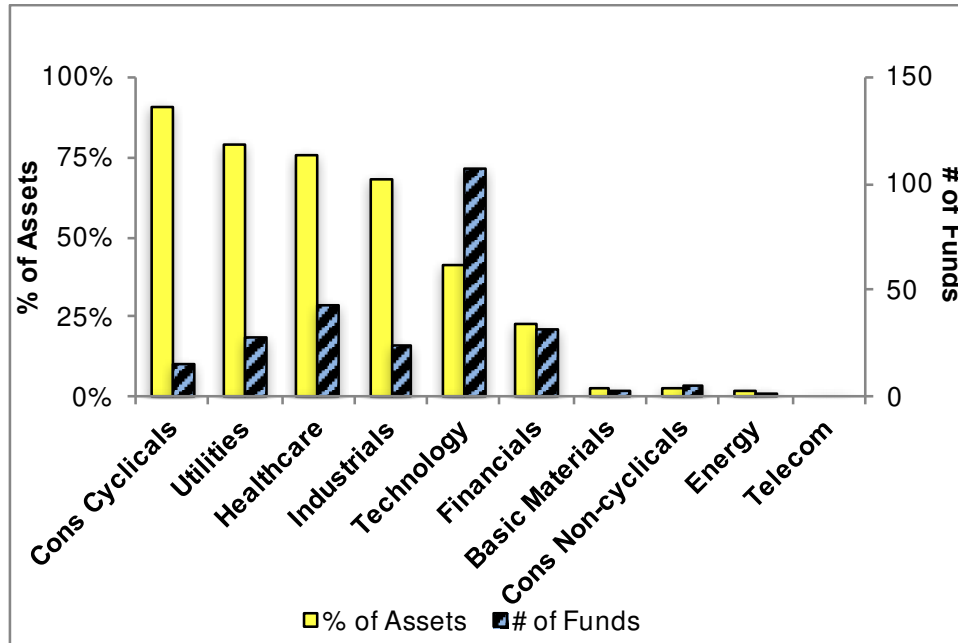
Sector	% of Sector Assets	# of Attractive Funds	% of Attractive Funds in Sector
Financials	28%	23	34%
Technology	27%	24	14%
Industrials	26%	6	14%
Cons Non-cyclicals	15%	10	37%
Healthcare	9%	18	15%
Cons Cyclical	3%	5	19%
Utilities	2%	4	9%
Telecom	2%	2	14%
Energy	0%	1	1%
Basic Materials	0%	1	5%

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 Cyclical	91%	16	59%
Utilities	79%	28	61%
Healthcare	75%	43	37%
Industrials	68%	24	57%
Technology	42%	107	61%
Financials	23%	32	47%
Basic Materials	3%	3	15%
Cons Non-cyclical	2%	5	19%
Energy	2%	2	2%
Telecom	0%	0	0%

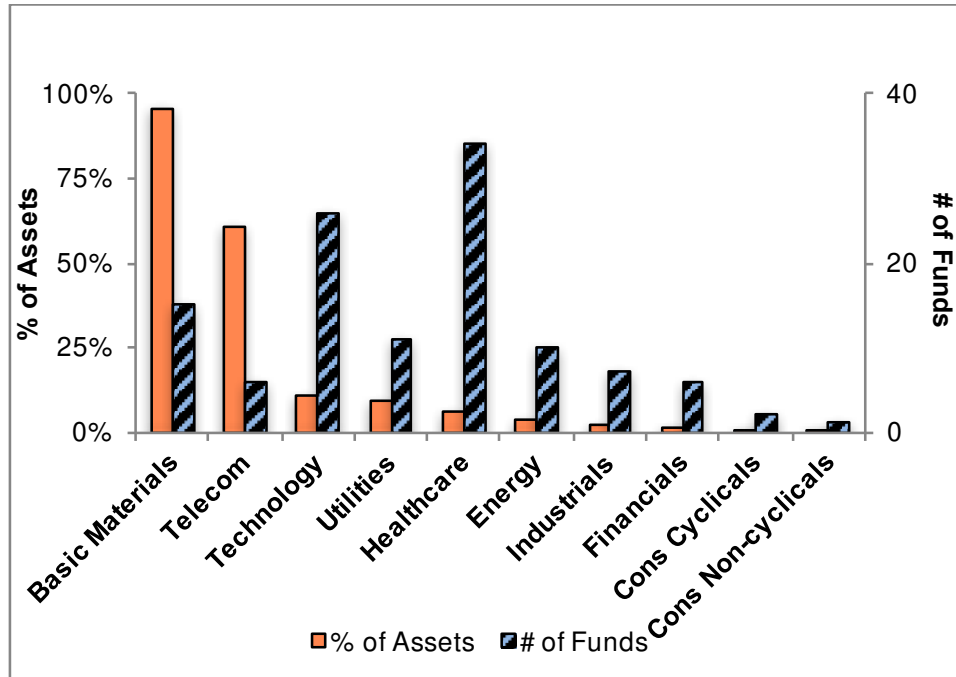
Source: New Constructs, LLC and company filings



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

The landscape of sector ETFs and mutual funds is littered with Unattractive funds. Investors in Basic Materials have put over 96% of their assets in Unattractive-rated funds.

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



Source: New Constructs, LLC and company filings

Figure 11 presents the data charted in Figure 10.

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

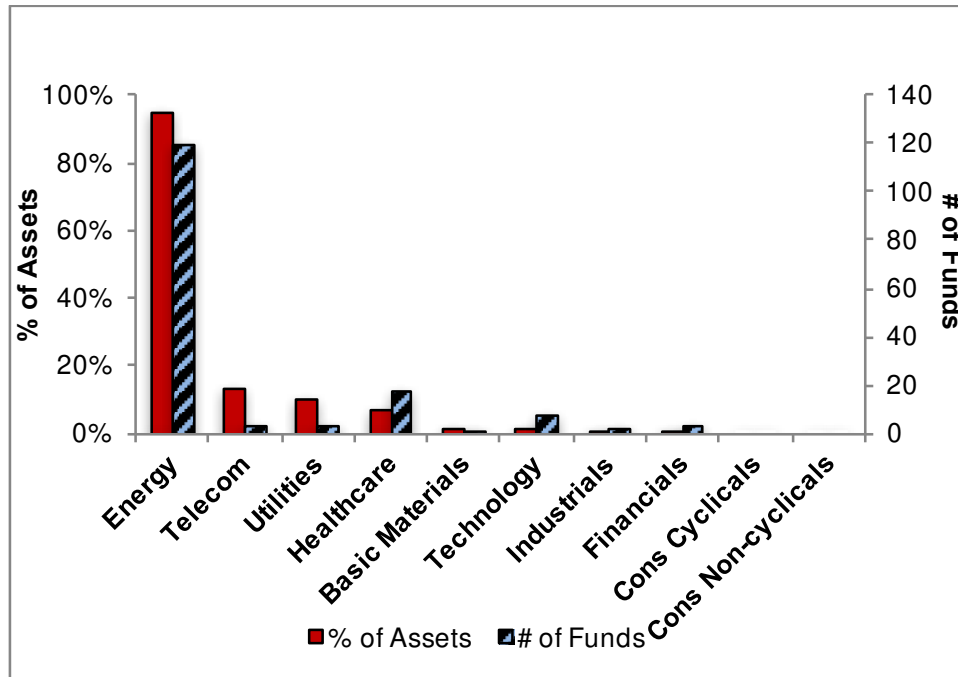
Sector	% of Sector Assets	# of Unattractive Funds	% of Unattractive Funds in Sector
Basic Materials	96%	15	75%
Telecom	61%	6	43%
Technology	10%	26	15%
Utilities	9%	11	24%
Healthcare	6%	34	29%
Energy	4%	10	8%
Industrials	2%	7	17%
Financials	1%	6	9%
Cons Cyclical	0%	2	7%
Cons Non-cyclical	0%	1	4%

Source: New Constructs, LLC and company filings

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



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



Source: New Constructs, LLC and company filings

Figure 13 presents the data charted in Figure 12.

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

Sector	% of Sector Assets	# of Very Unattractive Funds	% of Very Unattractive Funds in Sector
Energy	95%	119	90%
Telecom	13%	3	21%
Utilities	10%	3	7%
Healthcare	6%	17	15%
Basic Materials	1%	1	5%
Technology	1%	7	4%
Industrials	0%	2	5%
Financials	0%	3	4%
Cons Cyclical	0%	0	0%
Cons Non-cyclical	0%	0	0%

Source: New Constructs, LLC and company filings

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Disclosure: David Trainer, Kyle Guske II, and Sam McBride 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% = Unattractive Rating
5. Bottom 10% = Very Unattractive 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 Unattractive</b>	Misleading Trend	Bottom Quintile	< -5%	>3.5 or -1<0	> 50	> 20%	> 4 %
<b>Unattractive</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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