



How to Find the Best Sector ETFs

Finding the best ETFs 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 ETF Labels

There are at least 44 different Technology ETFs and at least 225 ETFs across eleven sectors. Do investors need 20+ choices on average per sector? How different can the ETFs be?

Those 44 Technology ETFs are very different. With anywhere from 25 to 358 holdings, many of these Technology ETFs have drastically different portfolios, creating drastically different investment implications.

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

How to Avoid Paralysis By Analysis

We think the large number of Technology (or any other) sector ETFs 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 ETFs. Analyzing ETFs, done with the proper diligence, is far more difficult than analyzing stocks because it means analyzing all the stocks within each ETF. As stated above, there can be as many as 358 stocks or more for one ETF.

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

Figure 1: The Best ETF in Each Sector

| Ticker | Name | Sector | Assets (\$mm) |
|--------|--|-----------------------|---------------|
| FXZ | First Trust Materials AlphaDEX ETF | Basic Materials | \$356 |
| FXD | First Trust Consumer Discretionary AlphaDEX Fund | Consumer Cyclical | \$498 |
| XLP | State Street Consumer Staples Select Sector SPDR | Consumer Non-cyclical | \$8,916 |
| PHO | PowerShares Water Resources Portfolio | Energy | \$830 |
| IYG | iShares U.S. Financial Services ETF | Financial | \$1,693 |
| IHF | iShares U.S. Healthcare Providers ETF | Healthcare | \$471 |
| XHB | State Street SPDR S&P Homebuilders ETF | Industrial | \$856 |
| REM | iShares Mortgage Real Estate ETF | Real Estate | \$1,000 |
| IXN | iShares Global Tech ETF | Technology | \$1,537 |
| IXP | iShares Global Telecom ETF | Telecom Services | \$400 |
| VPU | Vanguard Utilities Index Fund | Utilities | \$2,551 |

* 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.



Amongst the ETFs in Figure 1, State Street Consumer Staples Select Sector SPDR (XLP) ranks first overall, State Street SPDR S&P Homebuilders ETF (XHB) ranks second, and iShares Mortgage Real Estate ETF (REM) ranks third. Vanguard Utilities Index Fund (VPU) ranks last.

How to Avoid “The Danger Within”

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

You need to be sure you do not buy an ETF that might blow up. Buying an ETF 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 ETF'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](#)² 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.

If Only Investors Could Find Funds Rated by Their Holdings

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

State Street Consumer Staples Select Sector SPDR (XLP) is not only the top-rated Consumer Non-cyclicals ETF but is also the overall top-ranked sector ETF out of the 225 sector ETFs that we cover.

The worst ETF in Figure 1 is Vanguard Utilities Index Fund (VPU) which gets a Neutral rating. One would think ETF providers could do better for this sector.

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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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² Harvard Business School features the powerful impact of our research automation technology in the case [New Constructs: Disrupting Fundamental Analysis with Robo-Analysts](#).



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

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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