



## 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?

Get the best fundamental research

### Don't Trust ETF Labels

There are at least 47 different Technology ETFs and at least 233 ETFs across eleven sectors. Do investors need 21+ choices on average per sector? How different can the ETFs be?

Those 47 Technology ETFs are very different. With anywhere from 18 to 323 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 rank first for stock selection. Real Estate 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<sup>1</sup>, 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 323 stocks or more for one ETF.

Anyone focused on [fulfilling the fiduciary duty of care](#) recognizes that analyzing the holdings<sup>2</sup> 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 Fund              | Basic Materials        | \$141         |
| FXD    | First Trust consumer Discretionary AlphaDEX Fund | Consumer Cyclical      | \$304         |
| FSTA   | Fidelity MSCI Consumer Staples Index             | Consumer Non-cyclicals | \$421         |
| PHO    | Invesco Water Resources ETF                      | Energy                 | \$816         |
| IYG    | iShares U.S. Financial Services ETF              | Financials             | \$1,510       |
| PJP    | Invesco Dynamic Pharmaceuticals ETF              | Healthcare             | \$473         |
| XHB    | State Street SPDR S&P Homebuilders ETF           | Industrials            | \$629         |
| MORT   | VanEck Vectors Mortgage REIT Income ETF          | Real Estate            | \$157         |
| XLK    | State Street Technology Select Sector SPDR Fund  | Technology             | \$17,980      |
| XLC    | Select Sector Communication Services SPDR Fund   | Telecom Services       | \$4,070       |
| FUTY   | Fidelity MSCI Utilities Index                    | Utilities              | \$542         |

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

Sources: New Constructs, LLC and company filings

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

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



Amongst the ETFs in Figure 1, Fidelity MSCI Consumer Staples Index (FSTA) ranks first overall, State Street SPDR S&P Homebuilders ETF (XHB) ranks second, and VanEck Vectors Mortgage REIT Income ETF (MORT) ranks third. Fidelity MSCI Utilities Index ETF (FUTY) 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](#) 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.

Fidelity MSCI Consumer Staples Index (FSTA) is not only the top-rated Consumer Non-cyclicals ETF, but is also the overall top-ranked sector ETF out of the 233 sector ETFs that we cover.

The worst ETF in Figure 1 is Fidelity MSCI Utilities Index ETF (MORT), which gets a Neutral rating. One would think ETF providers could do better for this sector.

*This article originally published on [February 7, 2019](#).*

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

*Follow us on [Twitter](#), [Facebook](#), [LinkedIn](#), and [StockTwits](#) for real-time alerts on all our research.*



## ***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.



## DISCLOSURES

---

New Constructs®, LLC (together with any subsidiaries and/or affiliates, "New Constructs") is an independent organization with no management ties to the companies it covers. None of the members of New Constructs' management team or the management team of any New Constructs' affiliate holds a seat on the Board of Directors of any of the companies New Constructs covers. New Constructs does not perform any investment or merchant banking functions and does not operate a trading desk.

New Constructs' Stock Ownership Policy prevents any of its employees or managers from engaging in Insider Trading and restricts any trading whereby an employee may exploit inside information regarding our stock research. In addition, employees and managers of the company are bound by a code of ethics that restricts them from purchasing or selling a security that they know or should have known was under consideration for inclusion in a New Constructs report nor may they purchase or sell a security for the first 15 days after New Constructs issues a report on that security.

## DISCLAIMERS

---

The information and opinions presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or solicitation of an offer to buy or sell securities or other financial instruments. New Constructs has not taken any steps to ensure that the securities referred to in this report are suitable for any particular investor and nothing in this report constitutes investment, legal, accounting or tax advice. This report includes general information that does not take into account your individual circumstance, financial situation or needs, nor does it represent a personal recommendation to you. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about any such investments or investment services.

Information and opinions presented in this report have been obtained or derived from sources believed by New Constructs to be reliable, but New Constructs makes no representation as to their accuracy, authority, usefulness, reliability, timeliness or completeness. New Constructs accepts no liability for loss arising from the use of the information presented in this report, and New Constructs makes no warranty as to results that may be obtained from the information presented in this report. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information and opinions contained in this report reflect a judgment at its original date of publication by New Constructs and are subject to change without notice. New Constructs may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and New Constructs is under no obligation to insure that such other reports are brought to the attention of any recipient of this report.

New Constructs' reports are intended for distribution to its professional and institutional investor customers. Recipients who are not professionals or institutional investor customers of New Constructs should seek the advice of their independent financial advisor prior to making any investment decision or for any necessary explanation of its contents.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would be subject New Constructs to any registration or licensing requirement within such jurisdiction.

This report may provide the addresses of websites. Except to the extent to which the report refers to New Constructs own website material, New Constructs has not reviewed the linked site and takes no responsibility for the content therein. Such address or hyperlink (including addresses or hyperlinks to New Constructs own website material) is provided solely for your convenience and the information and content of the linked site do not in any way form part of this report. Accessing such websites or following such hyperlink through this report shall be at your own risk.

All material in this report is the property of, and under copyright, of New Constructs. None of the contents, nor any copy of it, may be altered in any way, copied, or distributed or transmitted to any other party without the prior express written consent of New Constructs. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of New Constructs.

Copyright New Constructs, LLC 2003 through the present date. All rights reserved.