



## How to Find the Best Sector Mutual Funds

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?

Get the best fundamental research

### Don't Trust Mutual Fund Labels

There are at least 196 different Real Estate mutual funds and at least 682 mutual funds across eleven sectors. Do investors need 62+ choices on average per sector? How different can the mutual funds be?

Those 196 Real Estate mutual funds are very different. With anywhere from 20 to 188 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. Financials 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 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<sup>1</sup>, 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 188 stocks, and sometimes even more, for one mutual fund.

Anyone focused on [fulfilling the fiduciary duty of care](#) recognizes that analyzing the holdings<sup>2</sup> 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)
VMIAX	Vanguard Materials Index Fund	Basic Materials	\$2,464
FDLSX	Fidelity Leisure Portfolio	Consumer Cyclical	\$469
VCSAX	Vanguard Consumer Staples Index Fund	Consumer Non-cyclical	\$5,253
INRSX	Ivy Natural Resources Fund	Energy	\$390
JRGRX	John Hancock Regional Bank Fund	Financials	\$2,010
SWHFX	Schwab Health Care Fund	Healthcare	\$838
VINAX	Vanguard Industrials Index Fund	Industrials	\$3,614
BREIX	Baron Real Estate Fund	Real Estate	\$614
ROGSX	Red Oak Technology Select Fund	Technology	\$619
FWRLX	Fidelity Wireless Portfolio	Telecom Services	\$249
EVUYX	Wells Fargo Utility & Telecommunications Fund	Utilities	\$405

\* Best mutual funds exclude funds 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 mutual funds in Figure 1, John Hancock Regional Bank Fund (JRGRX) ranks first overall, Vanguard Consumer Staples Index (VCSAX) ranks second, and Fidelity Leisure Portfolio (FDLSX) ranks third. Vanguard Materials Index Fund (VMIAX) 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. 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.

John Hancock Regional Bank Fund (JRGRX) is not only the top-rated Financials mutual fund, but is also the overall top-ranked sector mutual fund out of the 682 sector mutual funds that we cover.

The worst mutual fund in Figure 1 is Vanguard Materials Index Fund (VMIAX) which gets an Unattractive rating. One would think mutual fund 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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## ***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.



## **DISCLOSURES**

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