



Sector Ratings for ETFs & Mutual Funds

At the beginning of the second quarter of 2020, only the Consumer Non-cyclicals, Telecom Services, and Financials sectors earn Attractive-or-better ratings. Our sector ratings are based on the normalized aggregation of our stock ratings for every stock in each sector. Our [stock ratings](#) are based on five criteria that assess a firm's business strength and valuation. See last quarter's Sector Ratings [here](#).

Investors looking for sector funds that hold quality stocks should look no further than the Consumer Non-cyclicals, Telecom Services, and Financials sectors. These sectors house a large portion of 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](#)¹ empowers our unique [ETF and mutual fund rating methodology](#), which leverages our rigorous analysis of each fund's holdings.² Only our research utilizes the superior data and earnings adjustments featured by the HBS & MIT Sloan paper, "[Core Earnings: New Data and Evidence](#)."

Get the best fundamental research

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
Consumer Non-cyclicals	Very Attractive
Telecom Services	Attractive
Financials	Attractive
Basic Materials	Neutral
Energy	Neutral
Industrials	Neutral
Healthcare	Neutral
Technology	Neutral
Consumer Cyclicals	Unattractive
Utilities	Unattractive
Real Estate	Very Unattractive

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.

State Street Consumer Staples Select Sector SPDR Fund (XLP) is the top rated Consumer Non-cyclicals fund. It

¹ Harvard Business School features the powerful impact of our research automation technology in the case [New Constructs: Disrupting Fundamental Analysis with Robo-Analysts](#).

² This [paper](#) compares our analytics on a mega cap company to other major providers. The Appendix details exactly how we stack up.

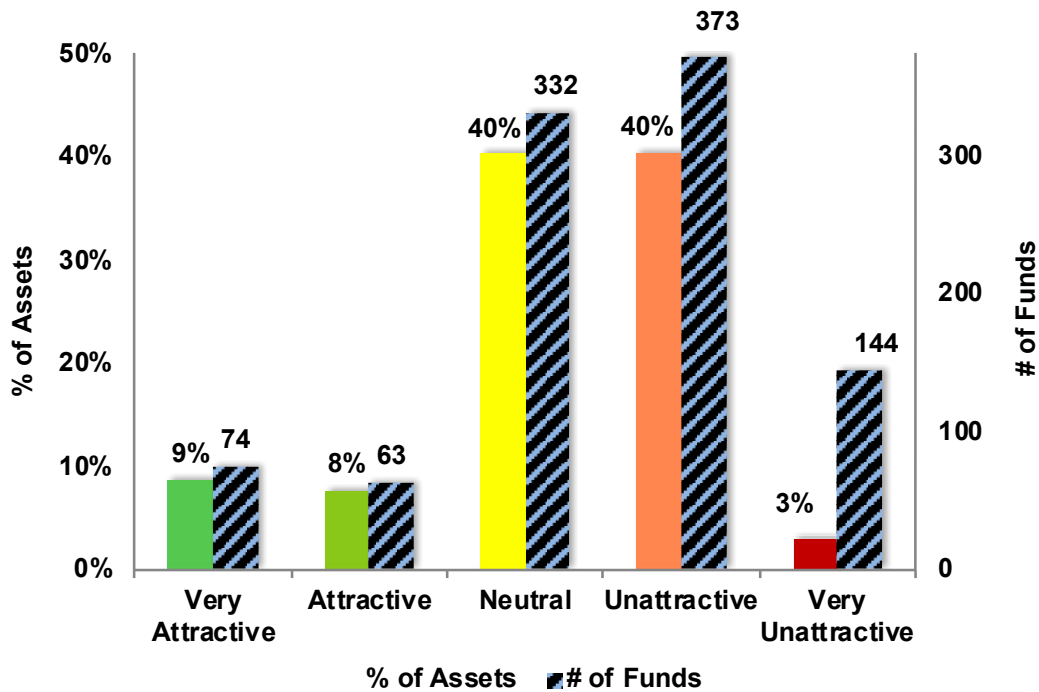


gets our Very Attractive rating by allocating over 64% of its value to Attractive-or-better-rated stocks.

Dunham Real Estate Stock Fund (DAREX) is the worst rated Real Estate fund. It gets our Very Unattractive rating by allocating over 56% of its value to Unattractive-or-worse-rated stocks. Making matters worse, it charges investors annual costs of 4.24%.

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

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 11 times that of Very Attractive funds.

Figure 3: Predictive Rating Distribution Stats

	Very Attractive	Attractive	Neutral	Unattractive	Very Unattractive
# of ETFs & Funds	74	63	332	373	144
% of ETFs & Funds	8%	6%	34%	38%	15%
% of TNA	9%	8%	40%	40%	3%
Avg TAC	0.29%	0.35%	0.54%	1.24%	3.32%

* Avg TAC = Weighted Average Total Annual Costs

Source: New Constructs, LLC and company filings

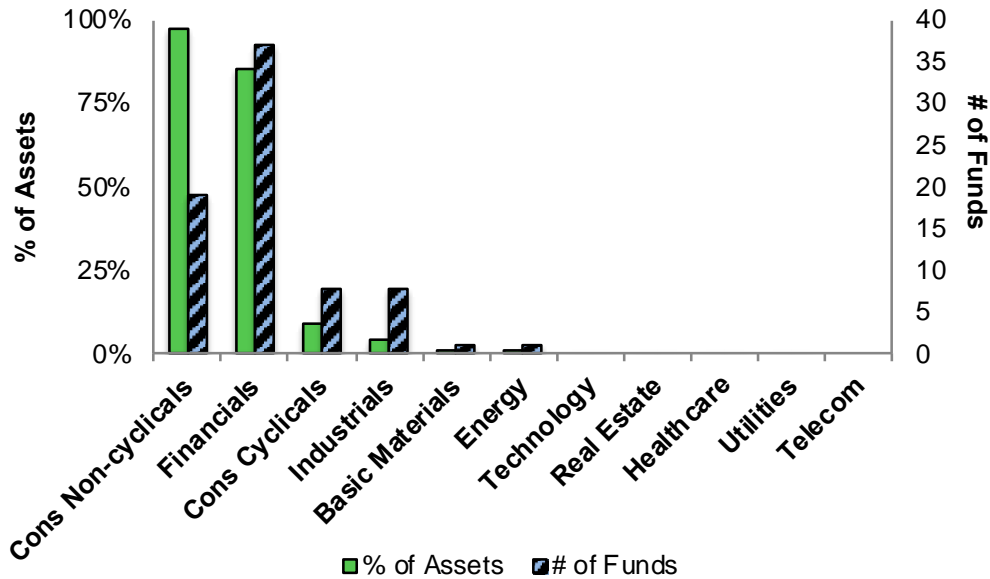
This table shows that only the best of the best funds get our Very Attractive Rating: they must hold good stocks AND have low costs. Investors deserve to have the best of both and we are here to give it to them.



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 Very Attractive-rated funds.

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

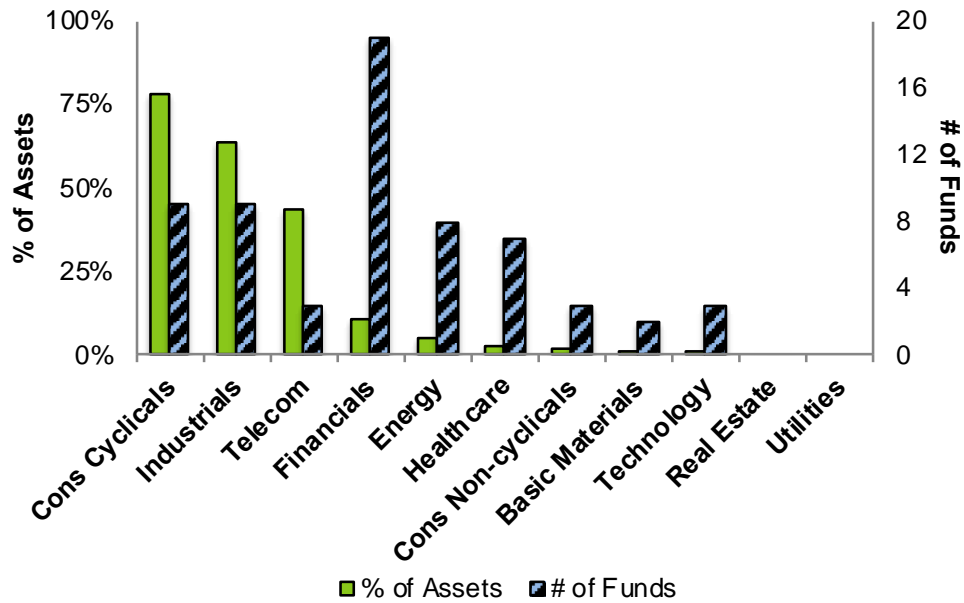
Sector	% of Sector Assets	# of Very Attractive Funds	% of Very Attractive Funds in Sector
Cons Non-cyclicals	98%	19	76%
Financials	86%	37	47%
Cons Cyclical	9%	8	23%
Industrials	4%	8	18%
Basic Materials	1%	1	5%
Energy	0%	1	1%
Technology	0%	0	0%
Real Estate	0%	0	0%
Healthcare	0%	0	0%
Telecom	0%	0	0%
Utilities	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 in each sector allocated to Attractive-rated funds.

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

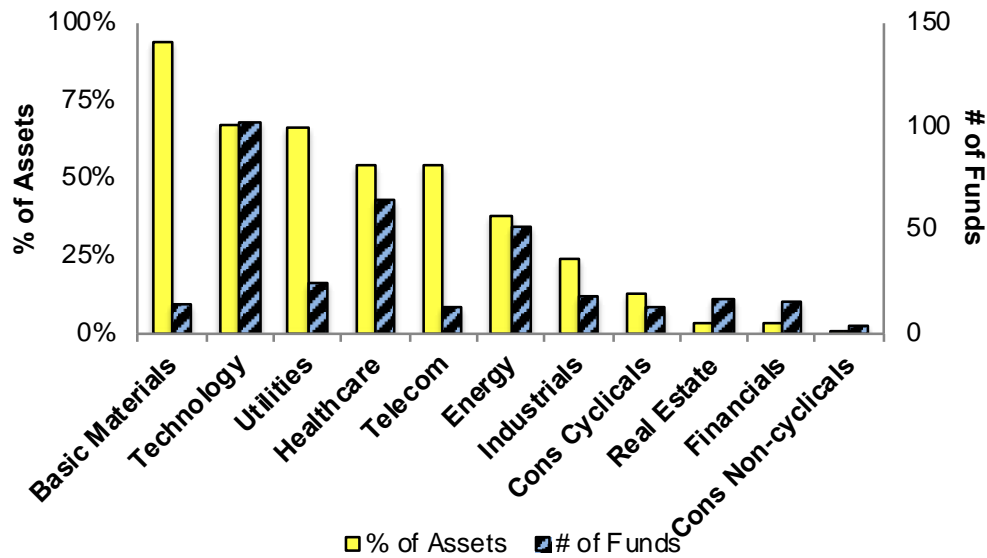
Sector	% of Sector Assets	# of Attractive Funds	% of Attractive Funds in Sector
Cons Cyclical	78%	9	26%
Industrials	64%	9	20%
Telecom	43%	3	13%
Financials	10%	19	24%
Energy	5%	8	6%
Healthcare	3%	7	6%
Cons Non-cyclical	2%	3	12%
Basic Materials	1%	2	11%
Technology	1%	3	1%
Real Estate	0%	0	0%
Utilities	0%	0	0%

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 in each sector allocated to Neutral-rated funds.

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
Basic Materials	94%	14	74%
Technology	67%	102	45%
Utilities	66%	24	51%
Healthcare	55%	64	51%
Telecom	54%	12	50%
Energy	38%	52	41%
Industrials	24%	18	40%
Cons Cyclical	12%	12	34%
Real Estate	3%	16	7%
Financials	3%	15	19%
Cons Non-cyclical	0%	3	12%

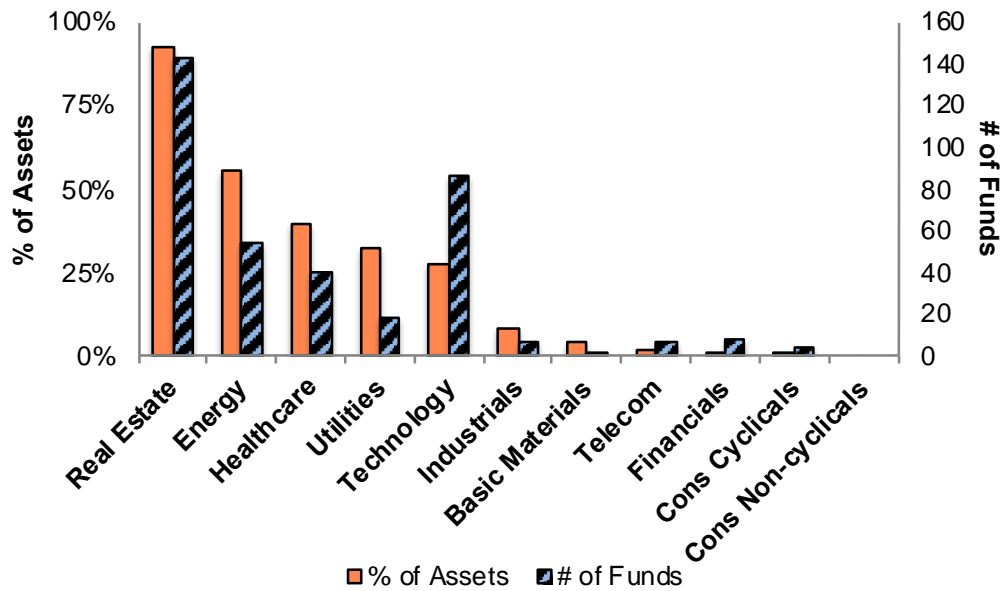
Source: New Constructs, LLC and company filings



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

The landscape of sector ETFs and mutual funds is littered with Unattractive funds. Investors in the Real Estate sector have put over 93% 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

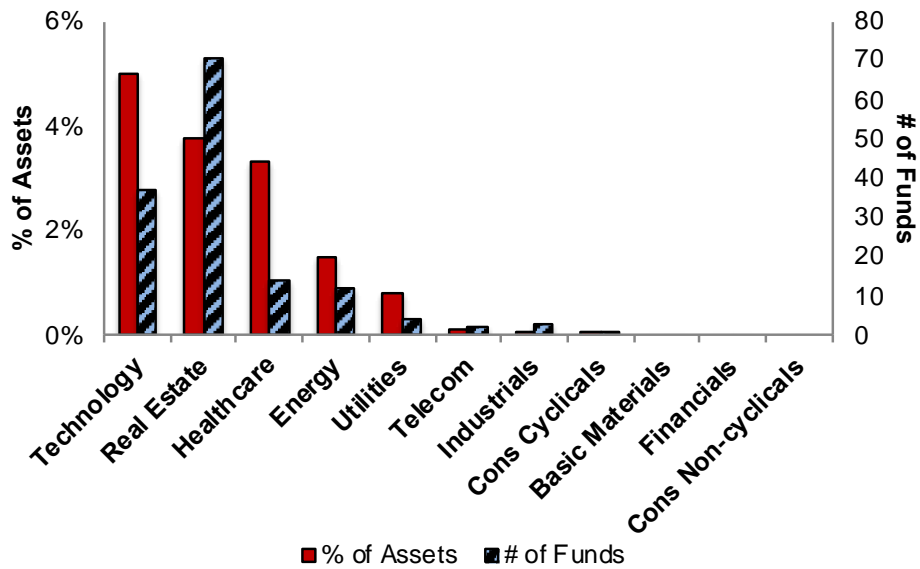
Sector	% of Sector Assets	# of Unattractive Funds	% of Unattractive Funds in Sector
Real Estate	93%	143	62%
Energy	55%	55	43%
Healthcare	40%	41	33%
Utilities	33%	19	40%
Technology	28%	86	38%
Industrials	8%	7	16%
Basic Materials	4%	2	11%
Telecom	2%	7	29%
Financials	1%	8	10%
Cons Cyclical	0%	5	14%
Cons Non-cyclical	0%	0	0%

Source: New Constructs, LLC and company filings



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

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
Technology	5%	37	16%
Real Estate	4%	71	31%
Healthcare	3%	14	11%
Energy	2%	12	9%
Utilities	1%	4	9%
Telecom	0%	2	8%
Industrials	0%	3	7%
Cons Cyclical	0%	1	3%
Basic Materials	0%	0	0%
Financials	0%	0	0%
Cons Non-cyclical	0%	0	0%

Source: New Constructs, LLC and company filings

This article originally published on [April 14, 2020](#).

Disclosure: David Trainer, Kyle Guske II, and Matt Shuler 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		
Very Unattractive	Misleading Trend	Bottom Quintile	< -5%	>3.5 or -1<0	> 50	> 20%	> 4 %
Unattractive	False Positive	4th Quintile	-5% < -1%	2.4<3.5 or <-1	20 < 50	8% < 20%	2% < 4%
Neutral	Neutral EE	3rd Quintile	-1% < 3%	1.6 < 2.4	10 < 20	2.5% < 8%	1% < 2%
Attractive	Positive EE	2nd Quintile	3% < 10%	1.1 < 1.6	3 < 10	1% < 2.5%	0.5% < 1%
Very Attractive	Rising EE	Top Quintile	> 10%	0 < 1.1	0 < 3	<1%	< 0.5%



Footnotes adjustments matter. We are the ONLY source.

We provide ratings, models, reports & screeners on U.S. 3,000 stocks, 700 ETFs and 7,000 mutual funds.

HBS & MIT Sloan research reveals that:

- **Markets are inefficiently assessing earnings because no one reads the footnotes.**
- **Corporate managers hide gains/losses in footnotes to manage earnings.**
- **Our technology brings the material footnotes data to market for the first time ever.**

Combining human expertise with NLP/ML/AI technologies ([featured by Harvard Business School](#)), we shine a light in the dark corners (e.g. footnotes) of hundreds of thousands of financial filings to unearth critical details.

The HBS & MIT Sloan paper, [Core Earnings: New Data and Evidence](#), shows how our superior data drives uniquely comprehensive and independent debt and equity research.

This [paper](#) compares our analytics on a mega cap company to other major providers. The Appendix details exactly how we stack up.

Learn [more](#).

Quotes from HBS & MIT Sloan professors on our research:

Get better research:

“...the NC dataset provides a novel opportunity to study the properties of non-operating items disclosed in 10-Ks, and to examine the extent to which the market impounds their implications.” – page 20

Pick better stocks:

“Trading strategies that exploit cross-sectional differences in firms’ transitory earnings produce abnormal returns of 7-to-10% per year.” – Abstract

Avoid losses from using other firms’ data:

“...many of the income-statement-relevant quantitative disclosures collected by NC do not appear to be easily identifiable in Compustat...” – page 14

Build better models:

“Core Earnings [calculated using New Constructs’ novel dataset] provides predictive power for various measures of one-year-ahead performance...that is incremental to their current-period counterparts.” – page 4

Exploit market inefficiencies:

“These results ... suggest that the adjustments made by analysts and Compustat to better capture core earnings are incomplete. Moreover, the non-core items identified by NC produce a measure of core earnings that is incremental to alternative measures of operating performance in predicting an array of future income measures.” – page 26

Fulfill fiduciary duties:

“An appropriate measure of accounting performance for purposes of forecasting future performance requires detailed analysis of all quantitative performance disclosures detailed in the annual report, including those reported only in the footnotes and in the MD&A.” – page 33-34



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