Sector Ratings for ETFs & Mutual Funds

At the beginning of the first quarter of 2021, only the Consumer Non-cyclicals, Financials, and Basic Materials sectors earn an Attractive-or-better rating. 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, Financials, and Basic Materials 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.

The best fundamental data in the world, proven in The Journal of Financial Economics, drives our research. 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]

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
Financials	Attractive
Basic Materials	Attractive
Telecom Services	Neutral
Technology	Neutral
Consumer Cyclicals	Neutral
Healthcare	Neutral
Industrials	Neutral
Energy	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.

iShares Global Consumer Staples ETF (KXI) is the top rated Consumer Non-cyclicals fund. It gets our Very

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

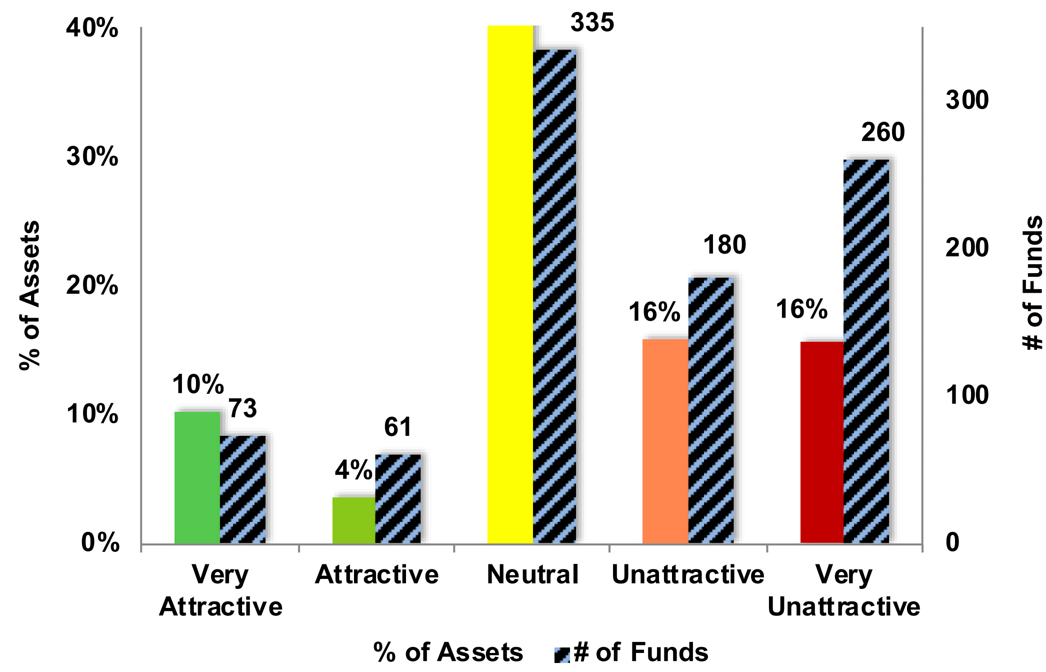
[2] See how our models and financial ratios are superior to Bloomberg and Capital IQ's (SPGI) analytics in the detailed appendix of this paper.

Attractive rating by allocating over 50% of its value to Attractive-or-better-rated stocks.

Pioneer Real Estate Shares (PWREX) is the worst rated Real Estate fund. It gets our Very Unattractive rating by allocating over 77% of its value to Unattractive-or-worse-rated stocks. Making matters worse, it charges investors annual costs of 4.17%.

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 over 10 times that of Very Attractive funds.

Figure 3: Predictive Rating Distribution Stats

	Very Attractive	Attractive	Neutral	Unattractive	Very Unattractive
# of ETFs & Funds	73	61	335	180	260
% of ETFs & Funds	8%	7%	37%	20%	29%
% of TNA	10%	4%	55%	16%	16%
Avg TAC	0.23%	0.90%	0.42%	0.72%	2.31%

* Avg TAC = Weighted Average Total Annual Costs

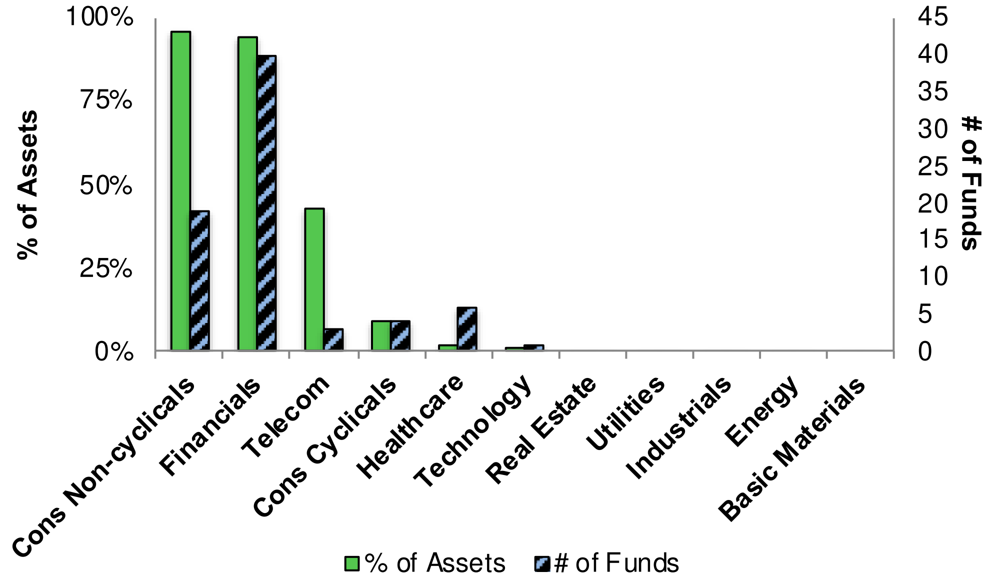
Source: New Constructs, LLC and company filings

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.

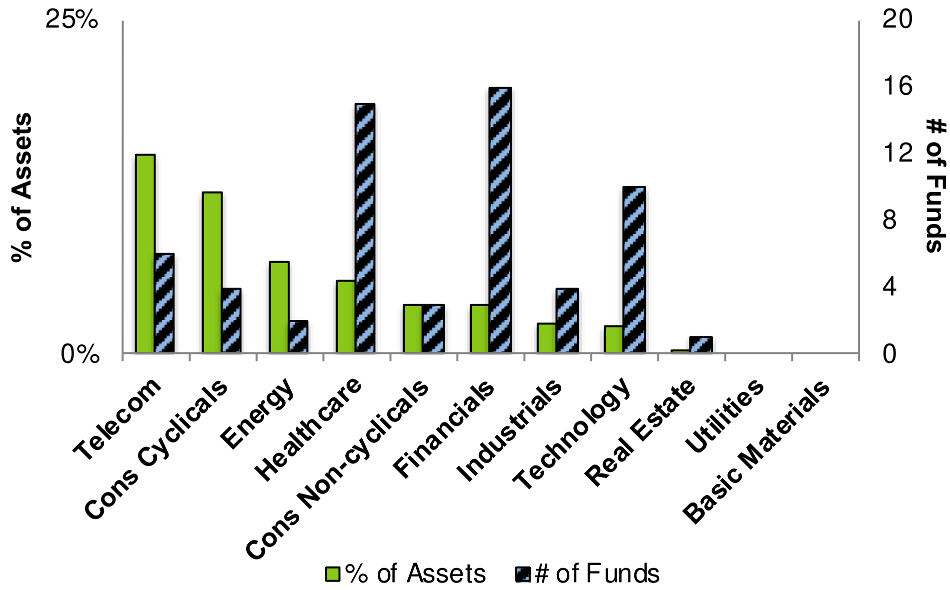
Figure 5: Very Attractive ETFs & Mutual Funds by Sector

Sector	% of Sector Assets	# of Very Attractive Funds	% of Very Attractive Funds in Sector
Cons Non-cyclicals	96%	19	83%
Financials	94%	40	51%
Telecom	43%	3	10%
Cons Cyclicals	9%	4	12%
Healthcare	2%	6	5%
Technology	0%	1	0%
Real Estate	0%	0	0%
Utilities	0%	0	0%
Industrials	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 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.

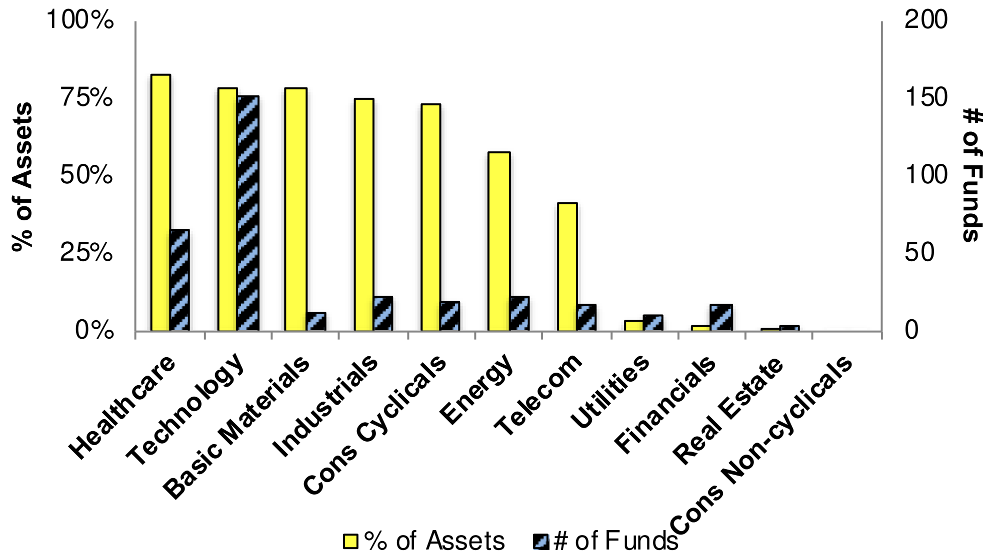
Figure 7: Attractive ETFs & Mutual Funds by Sector

Sector	% of Sector Assets	# of Attractive Funds	% of Attractive Funds in Sector
Telecom	15%	6	19%
Cons Cyclicals	12%	4	12%
Energy	7%	2	2%
Healthcare	6%	15	13%
Cons Non-cyclicals	4%	3	13%
Financials	4%	16	21%
Industrials	2%	4	11%
Technology	2%	10	4%
Real Estate	0%	1	0%
Utilities	0%	0	0%
Basic Materials	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

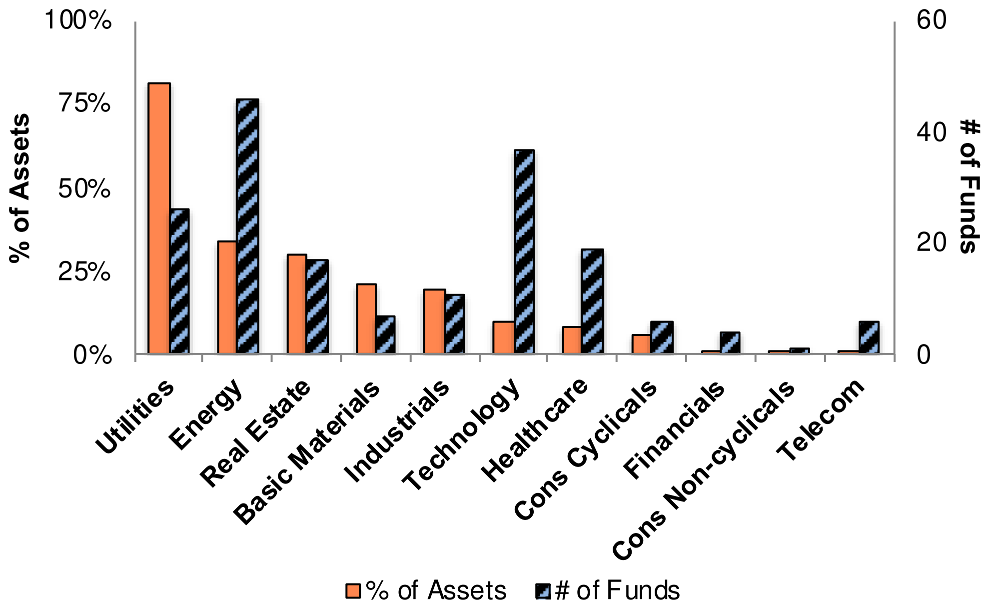
Sector	% of Sector Assets	# of Neutral Funds	% of Neutral Funds in Sector
Healthcare	82%	65	58%
Technology	78%	152	68%
Basic Materials	78%	11	58%
Industrials	75%	22	58%
Cons Cyclicals	73%	18	55%
Energy	57%	22	23%
Telecom	41%	16	52%
Utilities	3%	10	21%
Financials	1%	17	22%
Real Estate	0%	2	1%
Cons Non-cyclicals	0%	0	0%

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 Utilities have put over 81% 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.

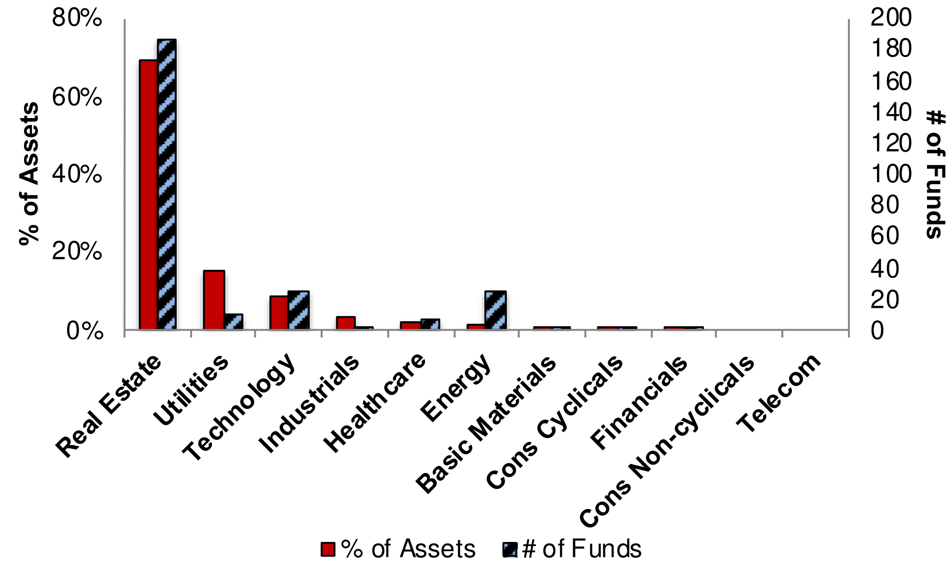
Figure 11: Unattractive ETFs & Mutual Funds by Sector

Sector	% of Sector Assets	# of Unattractive Funds	% of Unattractive Funds in Sector
Utilities	81%	26	55%
Energy	34%	46	48%
Real Estate	30%	17	8%
Basic Materials	21%	7	37%
Industrials	20%	11	29%
Technology	10%	37	16%
Healthcare	8%	19	17%
Cons Cyclicals	6%	6	18%
Financials	1%	4	5%
Cons Non-cyclicals	1%	1	4%
Telecom	0%	6	19%

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
Real Estate	70%	187	90%
Utilities	16%	11	23%
Technology	9%	25	11%
Industrials	3%	1	3%
Healthcare	2%	7	6%
Energy	2%	26	27%
Basic Materials	0%	1	5%
Cons Cyclicals	0%	1	3%
Financials	0%	1	1%
Telecom	0%	0	0%
Cons Non-cyclicals	0%	0	0%

Source: New Constructs, LLC and company filings

This article originally published on [January 11, 2021](#).

Disclosure: David Trainer, Kyle Guske II, and Matt Shuler 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.

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						Total Annual Costs
	Business Strength		Valuation			Cash Allocation	
	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.

The Journal of Financial Economics 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.

Forthcoming in The Journal of Financial Economics, the HBS & MIT Sloan paper, Core Earnings: New Data and Evidence, proves 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 against Bloomberg & Capital IQ.

Learn more.

Quotes from HBS & MIT Sloan professors on our research:

Superior data:

"[New Constructs'] Total Adjustments differs significantly from the items identified and excluded from Compustat's adjusted earnings measures. For example… 50% to 70% of the variation in Total Adjustments is not explained by IBSPI Adjustments, OIADP Adjustments, or OPE Adjustments individually." — pp. 14, 1st para.

Pick better stocks:

"Trading strategies that exploit non-core earnings produce abnormal returns of 8% per year." – Abstract, 5th sentence

Risks of using legacy data providers:

"we identified cases where Compustat did not collect information relating to firms' income that is useful in assessing core earnings." – pp. 16, 2nd para.

Build better models:

"… the machine [NC's Robo-Analyst technology] learned and replicated human analysts' judgements based on their prior decisions. It did so with greater speed and scale to produce a database covering a broad cross-section of firms." – pp. 9, 2nd para.

Exploit market inefficiencies:

"…analysts and other market participants are slow to impound the implications of the distinction between core and non-core earnings, especially those disclosed from the footnotes section of the 10-K" – pp. 35, 1st para.

Fulfill fiduciary duties:

"These costs [of analyzing footnotes] point to the potential for increasing inequities in the usefulness of financial statements for sophisticated versus unsophisticated investors who differ in their technological capabilities for processing 10-K information" – pp. 35, 2nd para.

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