



## 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?

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### Don't Trust Mutual Fund Labels

There are at least 186 different Real Estate mutual funds and at least 637 mutual funds across eleven sectors. Do investors need 57+ choices on average per sector? How different can the mutual funds be?

Those 186 Real Estate mutual funds are very different. With anywhere from 16 to 173 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. Consumer Non-cyclicals ranks first for stock selection. Real Estate ranks last. Details on the [Best & Worst mutual funds 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 173 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. More reliable & [proprietary](#) fundamental data, proven in [The Journal of Financial Economics](#), drives our research and analysis of fund holdings. Figure 1 shows our top rated mutual fund for each sector.

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<sup>1</sup> Three independent studies from respected institutions prove the superiority of our data, models, and ratings. Learn more [here](#).

<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](#).

**Figure 1: The Best Mutual Fund in Each Sector**

Ticker	Name	Sector	Assets (\$mm)
VMIAX	Vanguard Materials Index Fund	Basic Materials	\$3,846
VCDAX	Vanguard Consumer Discretionary Index Fund	Consumer Cyclical	\$6,264
FIJCX	Fidelity Advisor Consumer Staples Fund	Consumer Non-cyclical	\$1,460
ICBMX	ICON Natural Resources and Infrastructure Fund	Energy	\$179
FSRBX	Fidelity Select Banking Portfolio	Financial	\$637
PGHAX	Putnam Global Health Care Fund	Healthcare	\$1,532
FSLEX	Fidelity Environment and Alternative Energy Portfolio	Industrial	\$41
CGMRX	CMG Realty Fund	Real Estate	\$482
ROGSX	Red Oak Technology Select Fund	Technology	\$642
FLICX	Deutsche DWS Communications Fund	Telecom Services	\$113
HGASX	Hennessy Gas Utility Fund	Utilities	\$529

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

Sources: New Constructs, LLC and company filings

Amongst the mutual funds in Figure 1, Fidelity Select Banking Portfolios (FSRBX) ranks first overall, Fidelity Advisor Consumer Staples Fund (FIJCX) ranks second, and Putnam Global Health Care Fund (PGHAX) ranks third. Vanguard Consumer Discretionary Index Fund (VCDAX) 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.

Fidelity Select Banking Portfolios (FSRBX) is not only the top-rated Financials mutual fund, but is also the overall top ranked sector mutual fund out of the 637 sector mutual funds that we cover.

The worst mutual fund in Figure 1 is Vanguard Consumer Discretionary Index Fund (VCDAX), which gets a Neutral rating. One would think mutual fund providers could do better for this sector.

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## ***It's Official: We Offer the Best Fundamental Data in the World***

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Many firms claim their research is superior, but none of them can prove it with independent studies from highly-respected institutions as we can. Three different papers from both the public and private sectors show:

1. Legacy fundamental datasets suffer from significant inaccuracies, omissions and biases.
2. Only our “novel database” enables investors to overcome these flaws and apply [reliable](#) fundamental data in their research.
3. Our proprietary measures of [Core Earnings](#) and [Earnings Distortion](#) materially improve stock picking and forecasting of profits.

### **Best Fundamental Data in the World**

Forthcoming in [The Journal of Financial Economics](#), a top peer-reviewed journal, [Core Earnings: New Data & Evidence](#) proves our Robo-Analyst technology overcomes material shortcomings in legacy firms' data collection processes to provide superior [fundamental data](#), [earnings](#) models, and [research](#). More [details](#).

Key quotes from the paper:

- “[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 *S&P Global’s (SPGI) Adjustments* individually.” – pp. 14, 1<sup>st</sup> para.
- “A final source of differences [between New Constructs’ and S&P Global’s data] is due to data collection oversights...we identified cases where Compustat did not collect information relating to firms’ income that is useful in assessing core earnings.” – pp. 16, 2<sup>nd</sup> para.

### **Superior Models**

A top accounting firm features the superiority of our ROIC, NOPAT and Invested Capital research to Capital IQ & Bloomberg’s in [Getting ROIC Right](#). See the [Appendix](#) for direct comparison details.

Key quotes from the paper:

- “...an accurate calculation of ROIC requires more diligence than often occurs in some of the common, off-the-shelf ROIC calculations. Only by scouring the footnotes and the MD&A [ as New Constructs does] can investors get an accurate calculation of ROIC.” – pp. 8, 5<sup>th</sup> para.
- “The majority of the difference...comes from New Constructs’ machine learning approach, which leverages technology to calculate ROIC by applying accounting adjustments that may be buried deeply in the footnotes across thousands of companies.” – pp. 4, 2<sup>nd</sup> para.

### **Superior Stock Ratings**

Robo-Analysts’ stock ratings outperform those from human analysts as shown in this [paper](#) from Indiana’s Kelley School of Business. Bloomberg features the paper [here](#).

Key quotes from the paper:

- “the portfolios formed following the buy recommendations of Robo-Analysts earn abnormal returns that are statistically and economically significant.” – pp. 6, 3<sup>rd</sup> para.
- “Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts.” – pp. 20, 3<sup>rd</sup> para.

Our mission is to provide the best fundamental analysis of public and private businesses in the world and make it affordable for all investors, not just Wall Street insiders.

We believe every investor deserves to know the whole truth about the profitability and valuation of any company they consider for investment. More details on our cutting-edge technology and how we use it are [here](#).



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