



Sector Ratings for ETFs & Mutual Funds

At the beginning of the first quarter of 2023, the Energy, Basic Materials, and Healthcare sectors each earn an Attractive-or-better rating. Our sector ratings are based on the normalized aggregation of our stock ratings for each stock in a given sector. Our [stock ratings](#) are based on five criteria that assess a company’s business fundamentals and valuation. See last quarter’s Sector Ratings [here](#).

Investors looking for sector funds that hold quality stocks should focus on the Energy, Basic Materials, and Healthcare sectors. Figures 4 through 7 provide more details on the ratings of overall sectors, underlying assets, and individual funds. The primary drivers 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.

More reliable and [proprietary](#) fundamental data, 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 Our [Core Earnings](#)³ and Earnings Distortion factor general [novel alpha](#).

[Learn more about 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 6,700+ mutual funds and 900+ 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 |
|------------------------|-------------------|
| Energy | Very Attractive |
| Basic Materials | Attractive |
| Healthcare | Attractive |
| Consumer Non-cyclicals | Neutral |
| Financials | Neutral |
| Telecom Services | Neutral |
| Technology | Neutral |
| Consumer Cyclical | Neutral |
| Industrials | Unattractive |
| Real Estate | Unattractive |
| Utilities | 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.

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

² See how our models overcome flaws in Bloomberg and Capital IQ’s (SPGI) analytics in the [detailed appendix of this paper](#).

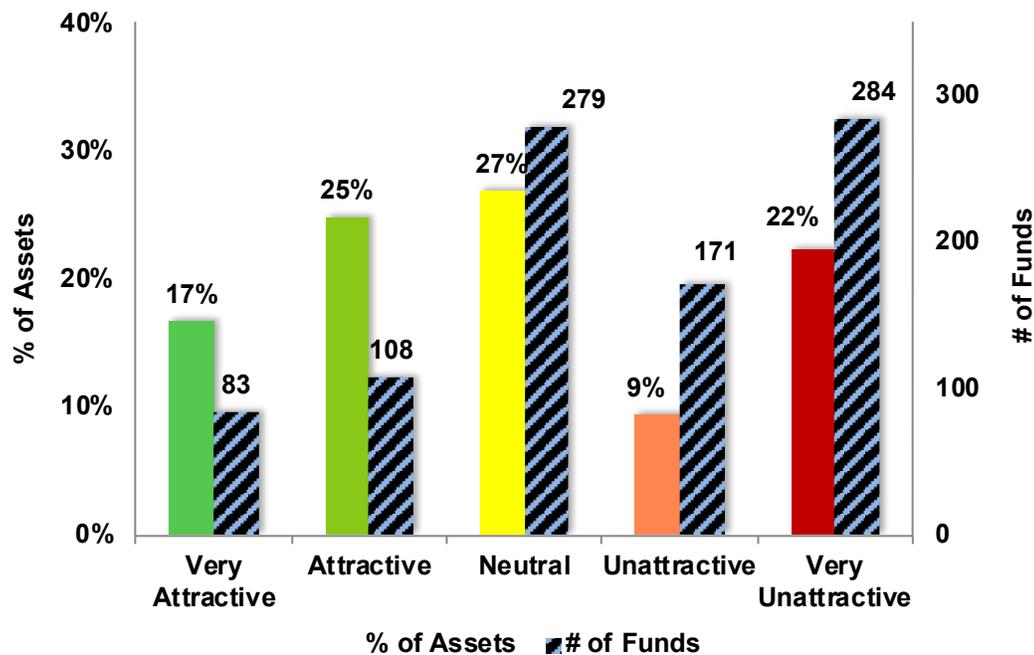
³ [The Journal of Financial Economics](#) proves that only Core Earnings enable investors to overcome the flaws in legacy fundamental data.

Invesco DWA Energy Momentum ETF (PXI) is the top-rated Energy fund. It gets our Very Attractive rating by allocating over 46% of its value to Attractive-or-better-rated stocks.

Fidelity Advisor Utilities Fund (FUGAX) is the worst rated Utilities fund. It gets our Very Unattractive rating by allocating over 96% of its value to Unattractive-or-worse-rated stocks. Making matters worse, it charges investors annual costs of 3.43%.

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 almost three times that of Very Attractive funds.

Figure 3: Predictive Rating Distribution Stats

| | Very Attractive | Attractive | Neutral | Unattractive | Very Unattractive |
|------------------------------|-----------------|------------|---------|--------------|-------------------|
| # of ETFs & Funds | 83 | 108 | 279 | 171 | 284 |
| % of ETFs & Funds | 9% | 12% | 30% | 18% | 31% |
| % of TNA | 17% | 25% | 27% | 9% | 22% |
| Avg TAC | 0.28% | 0.35% | 0.60% | 0.97% | 0.75% |

* Avg TAC = Weighted Average Total Annual Costs

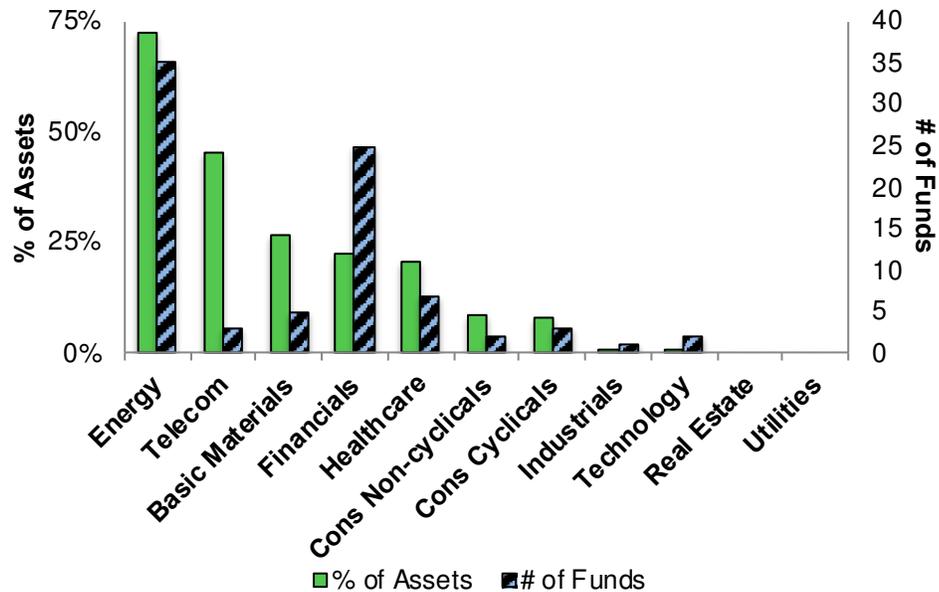
Source: New Constructs, LLC and company filings

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

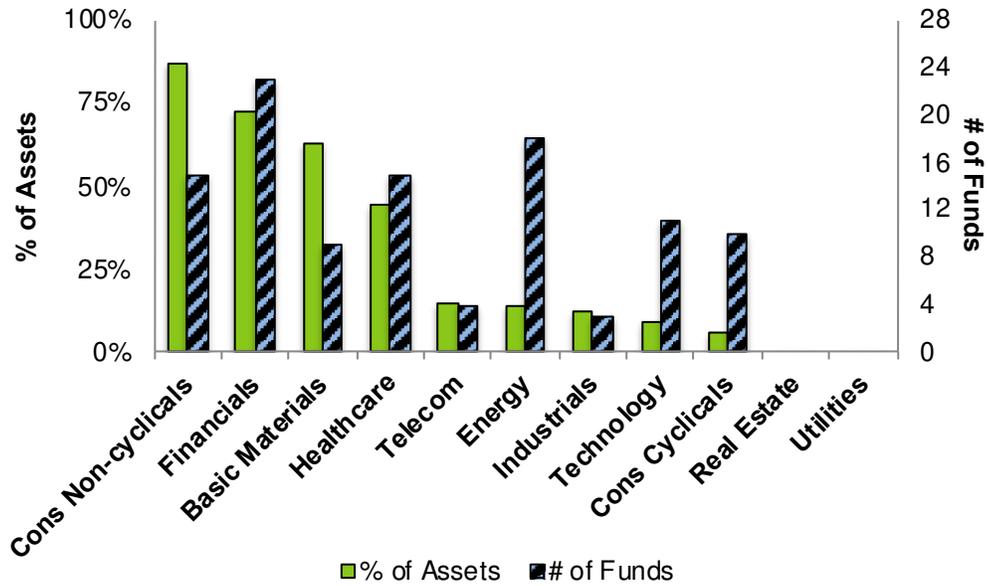
| Sector | % of Sector Assets | # of Very Attractive Funds | % of Very Attractive Funds in Sector |
|--------------------|--------------------|----------------------------|--------------------------------------|
| Energy | 72% | 35 | 30% |
| Telecom | 45% | 3 | 9% |
| Basic Materials | 27% | 5 | 22% |
| Financials | 23% | 25 | 35% |
| Healthcare | 21% | 7 | 5% |
| Cons Non-cyclicals | 8% | 2 | 8% |
| Cons Cyclical | 8% | 3 | 7% |
| Industrials | 0% | 1 | 3% |
| Technology | 0% | 2 | 1% |
| Real Estate | 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

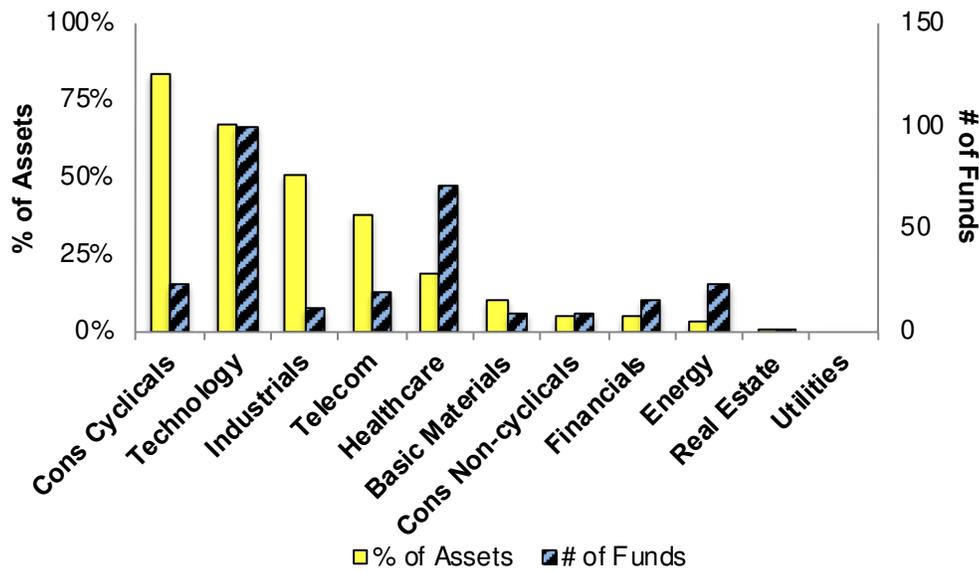
| Sector | % of Sector Assets | # of Attractive Funds | % of Attractive Funds in Sector |
|--------------------|--------------------|-----------------------|---------------------------------|
| Cons Non-cyclicals | 87% | 15 | 60% |
| Financials | 73% | 23 | 32% |
| Basic Materials | 63% | 9 | 39% |
| Healthcare | 44% | 15 | 12% |
| Telecom | 15% | 4 | 13% |
| Energy | 14% | 18 | 15% |
| Industrials | 12% | 3 | 9% |
| Technology | 9% | 11 | 5% |
| Cons Cyclical | 6% | 10 | 24% |
| 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 |
|-------------------|--------------------|--------------------|------------------------------|
| Cons Cyclical | 83% | 23 | 55% |
| Technology | 67% | 99 | 46% |
| Industrials | 51% | 11 | 34% |
| Telecom | 38% | 19 | 59% |
| Healthcare | 19% | 71 | 55% |
| Basic Materials | 10% | 9 | 39% |
| Cons Non-cyclical | 5% | 8 | 32% |
| Financials | 5% | 15 | 21% |
| Energy | 3% | 23 | 19% |
| Real Estate | 0% | 1 | 1% |
| Utilities | 0% | 0 | 0% |

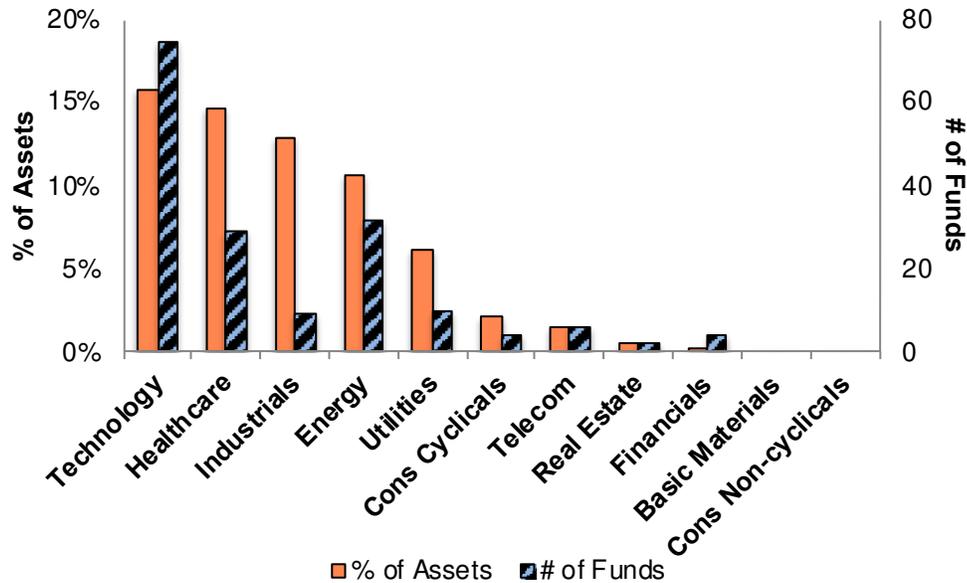
Source: New Constructs, LLC and company filings



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 Technology have put over 16% 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.

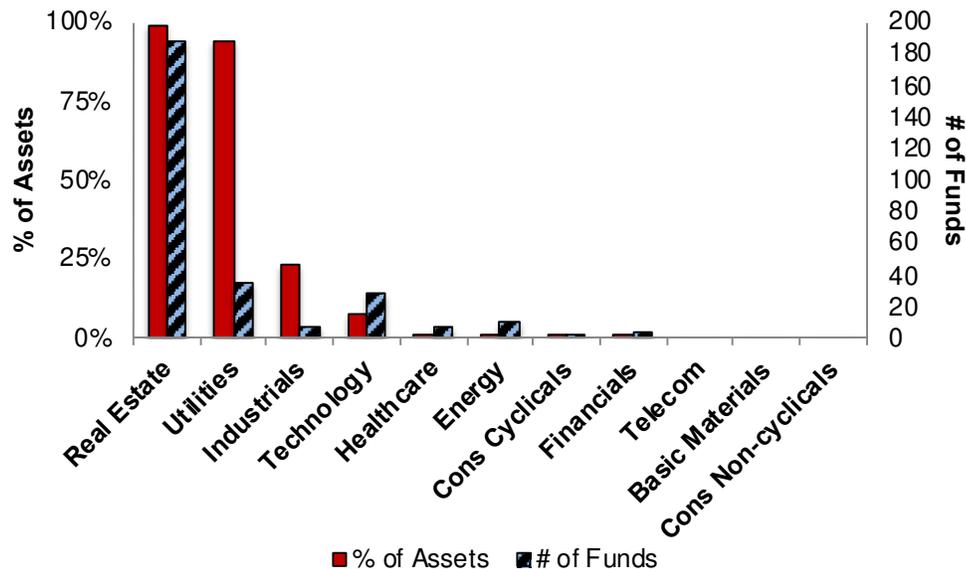
Figure 11: Unattractive ETFs & Mutual Funds by Sector

| Sector | % of Sector Assets | # of Unattractive Funds | % of Unattractive Funds in Sector |
|-------------------|--------------------|-------------------------|-----------------------------------|
| Technology | 16% | 75 | 35% |
| Healthcare | 15% | 29 | 22% |
| Industrials | 13% | 9 | 28% |
| Energy | 11% | 32 | 27% |
| Utilities | 6% | 10 | 22% |
| Cons Cyclical | 2% | 4 | 10% |
| Telecom | 1% | 6 | 19% |
| Real Estate | 1% | 2 | 1% |
| Financials | 0% | 4 | 6% |
| Basic Materials | 0% | 0 | 0% |
| 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 |
|-------------------|--------------------|------------------------------|--|
| Real Estate | 99% | 188 | 98% |
| Utilities | 94% | 35 | 78% |
| Industrials | 24% | 8 | 25% |
| Technology | 8% | 29 | 13% |
| Healthcare | 1% | 8 | 6% |
| Energy | 0% | 10 | 8% |
| Cons Cyclical | 0% | 2 | 5% |
| Financials | 0% | 4 | 6% |
| Telecom | 0% | 0 | 0% |
| Basic Materials | 0% | 0 | 0% |
| Cons Non-cyclical | 0% | 0 | 0% |

Source: New Constructs, LLC and company filings

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Disclosure: David Trainer, Kyle Guske II, Matt Shuler, and Italo Mendonça 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 | | | | | | 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% |

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

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, 1st 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, 2nd 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, 5th 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, 2nd 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, 3rd para.
- “Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts.” – pp. 20, 3rd 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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