Sector Ratings for ETFs & Mutual Funds

At the beginning of 4Q23, the Energy, Basic Materials, and Consumer Non-Cyclicals sectors each earn an Attractive-or-better rating. Our sector ratings are based on a normalized aggregation of our 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 Consumer Non-Cyclicals 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 6,300+ mutual funds and 1,000+ 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
Consumer Non-cyclicals	Attractive
Financials	Neutral
Healthcare	Neutral
Industrials	Neutral
Technology	Neutral
Consumer Cyclicals	Neutral
Utilities	Unattractive
Real Estate	Unattractive
Telecom Services	Very Unattractive

Source: New Constructs, LLC and company filings

[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.

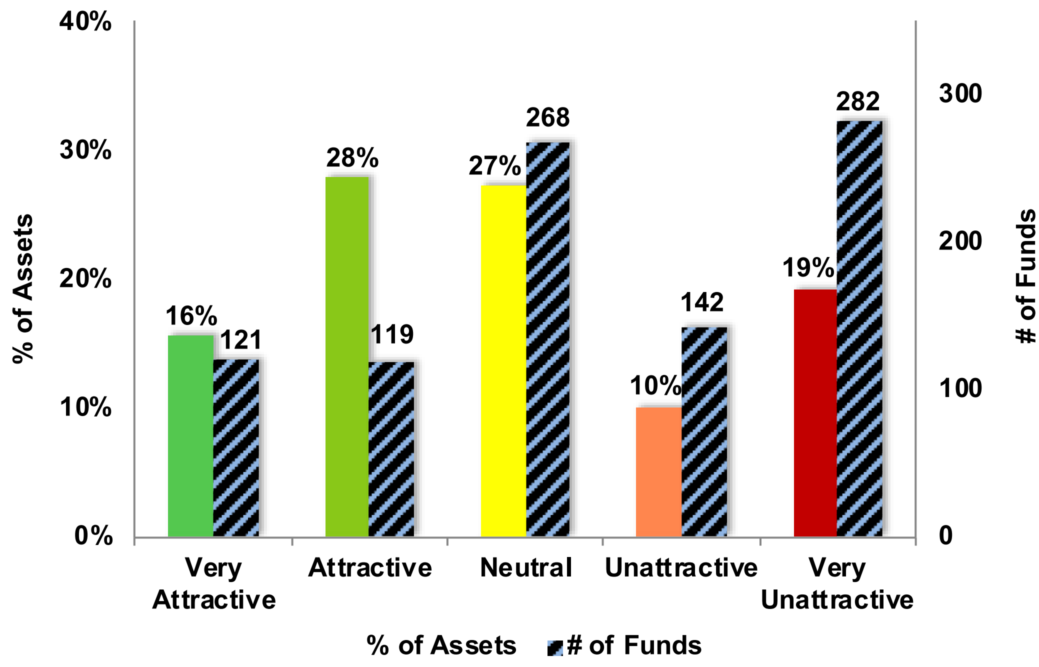
To earn an Attractive-or-better Predictive Rating, an ETF or mutual fund must have high-quality holdings and low costs. Only the top 30% of all ETFs and mutual funds earn our Attractive-or-better ratings.

State Street Energy Select Sector SPDR Fund (XLE) is the top rated Energy fund. It gets our Very Attractive Rating rating by allocating over 65% of its value to Attractive-or-better-rated stocks.

Fidelity Advisor Telecommunications Fund (FTUAX) is the worst rated Telecom Services fund. It gets our Very Unattractive rating by allocating over 33% of its value to Unattractive-or-worse-rated stocks. Making matters worse, it charges investors annual costs of 3.53%.

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 2.5x that of Very Attractive funds.

Figure 3: Predictive Rating Distribution Stats

	Very Attractive	Attractive	Neutral	Unattractive	Very Unattractive
# of ETFs & Funds	121	119	268	142	282
% of ETFs & Funds	13%	13%	29%	15%	30%
% of TNA	16%	28%	27%	10%	19%
Avg TAC	0.33%	0.33%	0.60%	0.74%	0.83%

* TNA = Total Net Assets
** Avg TAC = Weighted Average Total Annual Costs

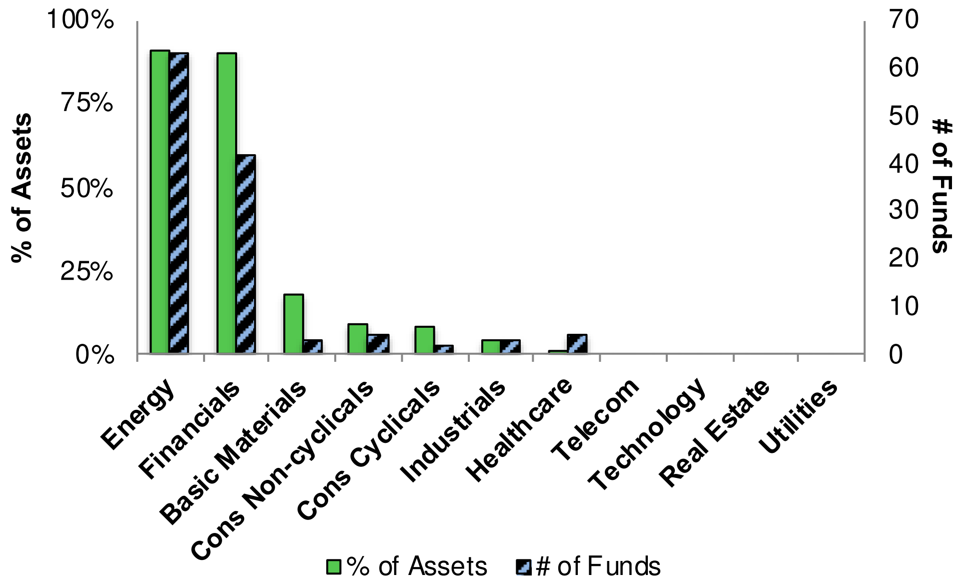
Source: New Constructs, LLC and company filings

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.

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.

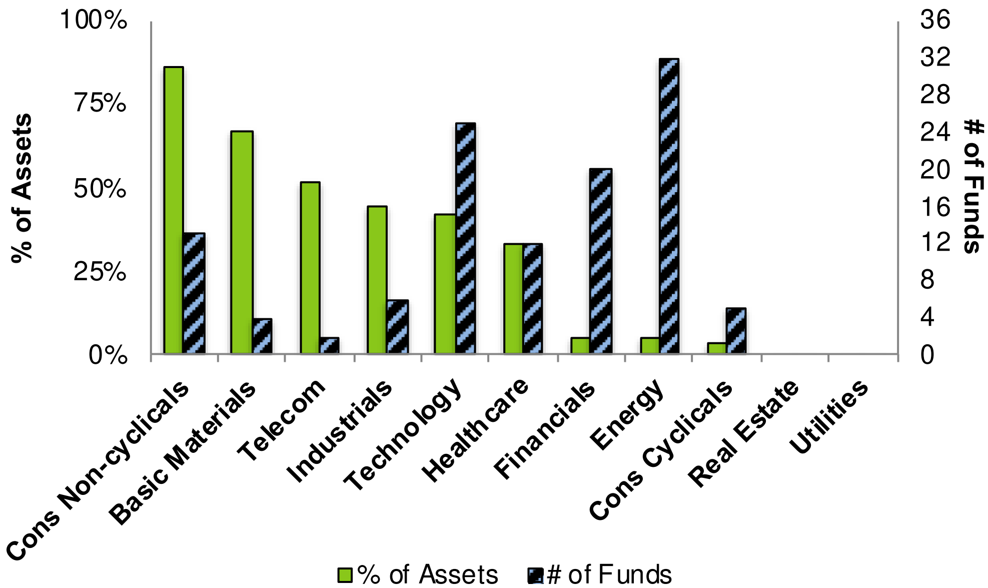
Figure 5: Very Attractive ETFs & Mutual Funds by Sector

Sector	% of Sector Assets	# of Very Attractive Funds	% of Very Attractive Funds in Sector
Energy	91%	63	57%
Financials	90%	42	55%
Basic Materials	18%	3	23%
Cons Non-cyclicals	9%	4	18%
Cons Cyclicals	9%	2	5%
Industrials	4%	3	8%
Healthcare	0%	4	3%
Telecom	0%	0	0%
Technology	0%	0	0%
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.

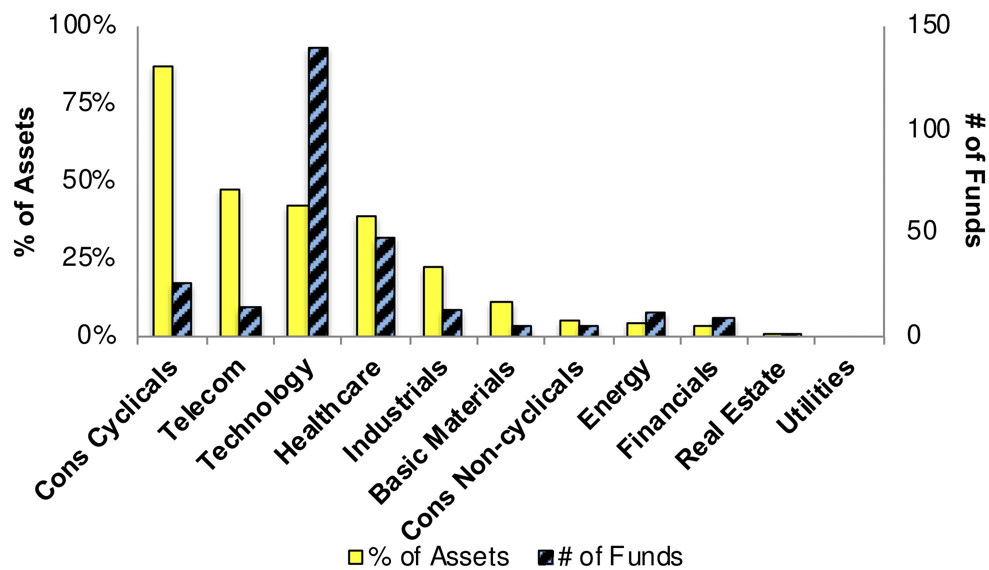
Figure 7: Attractive ETFs & Mutual Funds by Sector

Sector	% of Sector Assets	# of Attractive Funds	% of Attractive Funds in Sector
Cons Non-cyclicals	86%	13	59%
Basic Materials	67%	4	31%
Telecom	52%	2	8%
Industrials	45%	6	16%
Technology	42%	25	11%
Healthcare	34%	12	10%
Financials	6%	20	26%
Energy	5%	32	29%
Cons Cyclicals	3%	5	14%
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

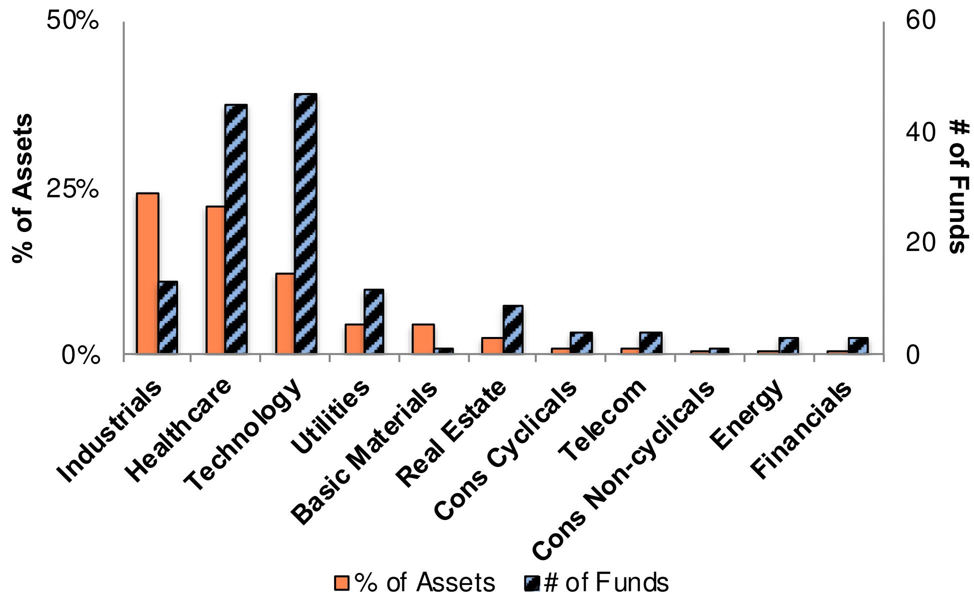
Sector	% of Sector Assets	# of Neutral Funds	% of Neutral Funds in Sector
Cons Cyclicals	87%	26	70%
Telecom	47%	14	54%
Technology	42%	140	59%
Healthcare	38%	47	38%
Industrials	23%	12	32%
Basic Materials	11%	5	38%
Cons Non-cyclicals	5%	4	18%
Energy	4%	11	10%
Financials	3%	8	10%
Real Estate	0%	1	1%
Utilities	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 Industrials have put over 24% 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.

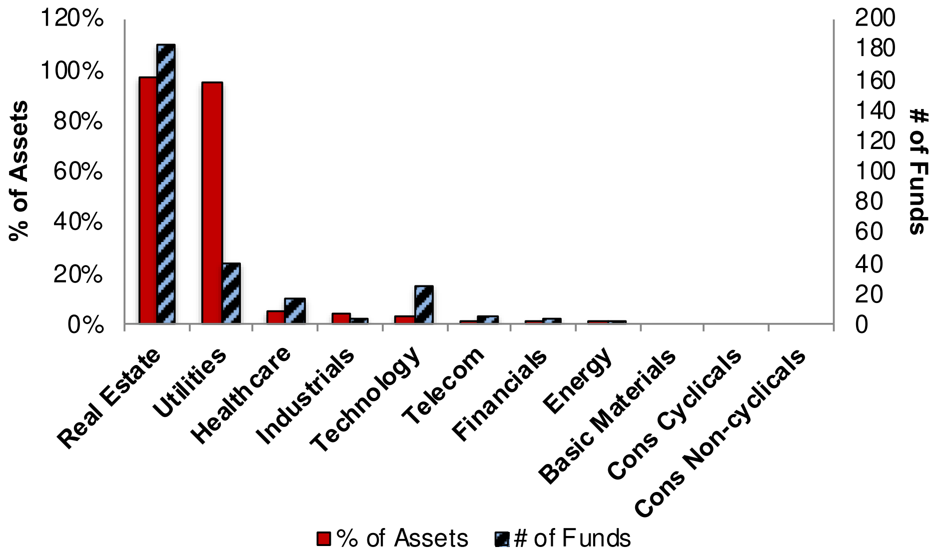
Figure 11: Unattractive ETFs & Mutual Funds by Sector

Sector	% of Sector Assets	# of Unattractive Funds	% of Unattractive Funds in Sector
Industrials	24%	13	34%
Healthcare	22%	45	36%
Technology	12%	47	20%
Utilities	5%	12	23%
Basic Materials	5%	1	8%
Real Estate	2%	9	5%
Cons Cyclicals	1%	4	11%
Telecom	1%	4	15%
Cons Non-cyclicals	0%	1	5%
Energy	0%	3	3%
Financials	0%	3	4%

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	97%	183	95%
Utilities	95%	40	77%
Healthcare	6%	17	14%
Industrials	4%	4	11%
Technology	4%	26	11%
Telecom	1%	6	23%
Financials	1%	4	5%
Energy	0%	2	2%
Basic Materials	0%	0	0%
Cons Cyclicals	0%	0	0%
Cons Non-cyclicals	0%	0	0%

Source: New Constructs, LLC and company filings

This article was originally published on [October 12, 2023](#).

Disclosure: David Trainer, Kyle Guske, Italo Mendonca, and Hakan Salt receive no compensation to write about any specific stock, sector or theme.

Questions on this report or others? Join our [Society of Intelligent Investors](#) and connect with us directly.

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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