



## Separating the Good from the Bad Consumer Cyclical Stocks

Most of the time, Long Idea reports focus on just one stock or fund. Rarely do we find multiple stocks in the same industry that we consider compelling Long Ideas. Even more rarely do we provide multiple stocks and an ETF in one Long Idea report as we do this week!

Through our forensic [Robo-Analyst AI](#) analysis of 3,300+ stocks, we've identified a cluster of great stocks in the Consumer Cyclicals sector. Despite the overall sector earning a [Neutral rating](#), we're featuring a Very Attractive rated ETF. For our ranking of all 11 sectors, see our [Sector Ratings for ETFs & Mutual Funds: 1Q26](#) report.

iShares U.S. Home Construction ETF (ITB) is this week's [Long Idea](#).

### A Very Attractive ETF With Quality Holdings

Our forward-looking [ETF and mutual fund ratings](#) provide diligence on funds that is usually only possible on individual stocks. Through this work, we find hidden pockets of undervalued stocks that others may overlook.

We've been bullish on certain Consumer Cyclicals stocks for quite some time and featured many as [Long Ideas](#), including:

- [D.R. Horton \(DHI\)](#),
- [Meritage Homes Corp \(MTH\)](#),
- [M/I Homes \(MHO\)](#), and
- [Owens Corning \(OC\)](#).

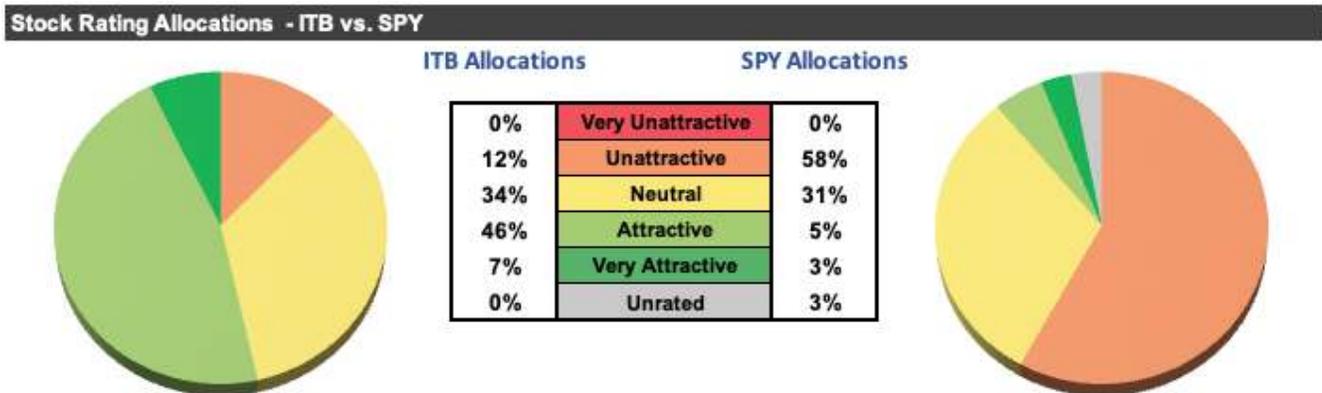
Each of these companies operates in the Homebuilding and Construction Supplies industry, which is a subset of companies in the larger Consumer Cyclicals sector.

iShares U.S. Home Construction ETF gives investors exposure to this highly profitable industry without the need to buy individual stocks or allocate to the entire Consumer Cyclicals sector or overall market, both of which are not as highly rated.

Our analysis of ITB and the S&P 500, as measured by State Street SPDR S&P 500 ETF Trust (SPY), reveals that ITB allocates more capital to profitable companies with cheaper valuations. ITB earns our Very Attractive [Predictive Fund Rating](#) while SPY earns an Attractive rating.

Per Figure 1, ITB allocates 53% of its assets to Attractive-or-better rated stocks compared to just 8% for SPY. On the flip side, ITB allocates just 12% of its assets to Unattractive-or-worse rated stocks compared to 58% for SPY.

**Figure 1: ITB's Holdings Are Superior to the Market**



Sources: New Constructs, LLC and company filings



**ITB Provides Better Risk/Reward Than the Market**

ITB tracks the home construction sector of the U.S. equity market and holds highly profitable and cheaply-valued companies. Of the 45 ITB holdings we cover:

- 98% have a positive ROIC,
- 78% have a positive 2-year average FCF yield,
- 62% have a market-implied GAP of 43 years (sector average) or less, and
- 76% have a positive PEBV ratio of 2.3 (sector average) or less.

Figure 2 shows our detailed rating for ITB, which includes each of the criteria we use to rate all ETFs and mutual funds under coverage. These criteria are the same for our [Stock Rating Methodology](#), because the performance of an ETF's holdings drives the performance of the ETF after fees. Figure 2 also compares ITB's rating with those of IWR, SPY, and IWM.

**Figure 2: iShares U.S. Home Construction ETF Breakdown**

Risk/Reward Rating	Portfolio Management					Total Annual Costs
	Quality of Earnings		Valuation			
	Economic vs Reported EPS	ROIC	2 yr Avg FCF (excl cash) Yield	Price to EBV	Market-Implied GAP	
Very Unattractive	Misleading Trend	Bottom Quintile	< -5%	> 3.5 or -1 < 0	> 50	> 4%
Unattractive	False Positive	4th Quintile	-5% < -1%	2.4 < 3.5 or < -1	20 < 50	2% < 4%
Neutral	Neutral EE	3rd Quintile	-1% < 3%	1.6 < 2.4	10 < 20	1% < 2%
Attractive	Positive EE	2nd Quintile	3% < 10%	1.1 < 1.6	3 < 10	0.5% < 1%
Very Attractive	Rising EE	Top Quintile	> 10%	0 < 1.1	0 < 3	< 0.5%
<b>Actual Values</b>						
ITB	Positive EE	17%	4%	1.8	29 yrs	0.4%
<b>Benchmarks</b>						
Style ETF (IWR)	Positive EE	12%	1%	3.9	59 yrs	0.2%
S&P 500 ETF (SPY)	Positive EE	35%	1%	3.8	75 yrs	0.1%
Small Cap ETF (IWM)	Positive EE	5%	-0%	4.2	55 yrs	0.2%

Sources: New Constructs, LLC and company filings

ITB's holdings are superior or equal to SPY in four of the five criteria that make up our [Portfolio Management Rating](#). Specifically:

- ITB's holdings generate positive economic earnings, same as SPY.
- ITB's ROIC is 17%, which is lower than SPY's at 35%.
- ITB's 2-yr avg free cash flow (FCF) yield of 4% is higher than SPY's at 1%.
- The price-to-economic book value (PEBV) ratio for ITB holdings is 1.8, which is much lower (better) than SPY's at 3.8.
- Our [discounted cash flow analysis](#) reveals an average market-implied growth appreciation period (GAP) of 29 years for ITB's holdings compared to 75 years for SPY.

The takeaway?

ITB allocates to profitable businesses, as measured by the 17% ROIC of its holdings, which trade at prices that are much cheaper than the stocks in the S&P 500, as measured by its lower PEBV ratio and market-implied GAP.



### ITB Industry Focus Taps into Larger Tailwinds

Generally, when we feature ETFs or mutual funds, we analyze the stock selection criteria. However, since ITB is a passive ETF, the focus is more on the industry it aims to represent. In this case, we believe the Homebuilding industry is highly undervalued.

As we recently outlined in our [Long Idea report on M/I Homes](#), it is no secret that the U.S. needs more houses. While experts debate the exact amount of the shortage, the projected numbers are staggering. For instance, different sources estimate the housing shortage is as high as:

- 4.7 million homes – [Zillow July 2025](#)
- 3-4 million homes – [Goldman Sachs October 2025](#)
- 4 million homes – [Realtor.com December 2025](#)

In fact, JPMorgan Chase, in an [October 2025 report](#), estimates that the current housing shortage could take, conservatively, 10 years to resolve.

This shortage of houses drives prices higher, which when combined with high interest rates, drives home affordability to some of the lowest levels since mid 2006.

According to [The Federal Reserve Bank of Atlanta](#), the Affordability Index was 70 in November 2025. A value below 100 indicates a median-income family would not be able to afford a median-priced home given the current interest rate. The Affordability Index has not been above 100 since May 2021 and has remained between 68-73 since November 2023.

This supply/demand imbalance leaves the Homebuilding industry with more highly profitable yet highly undervalued, i.e. Very Attractive and Attractive, stocks than most industries and sectors. This attractive risk/reward is not available from the S&P 500 or the entire Consumer Cyclical sector, as detailed below.

### ITB Is Better than the Consumer Cyclical Sector, Too

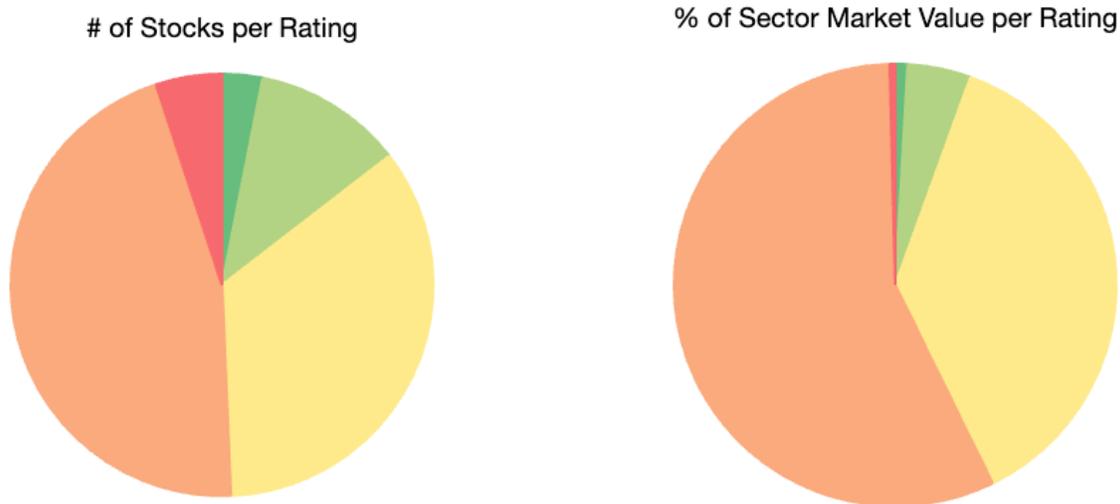
ITB's index tracking avoids many of the Unattractive-or-worse rated stocks within the Consumer Cyclical sector.

Per Figure 3, 85% of the 453 stocks in the Consumer Cyclical sector earn a Neutral-or-worse rating. These stocks make up 94% of the market cap in the entire Consumer Cyclical Sector.

50% of stocks earn an Unattractive-or-worse rating and make up 57% of the market cap in the sector.

As noted above, just 12% of ITB's assets are in stocks with Unattractive-or-worse ratings.

**Figure 3: Consumer Cyclical Sector Stock Rating Distribution**



Sources: New Constructs, LLC and company filings



On the flip side, just 15% of the stocks in the overall Consumer Cyclicals sector, which make up just 6% of the sector's market cap, earn an Attractive-or-better rating. Meanwhile, ITB allocates 53% of its assets to Attractive-or-better rated stocks.

Comparing ITB's holdings to the overall Consumer Cyclicals sector reveals:

- ITB's holdings generate positive economic earnings, same as the Consumer Cyclicals sector.
- ITB's ROIC is 17%, which is lower than the Consumer Cyclicals sector at 19%.
- ITB's 2-yr avg FCF yield of 4% is higher than the Consumer Cyclicals sector at 1%.
- The PEBV ratio for ITB holdings is 1.8, which is much lower (better) than the Consumer Cyclicals sector at 3.6.
- Our discounted cash flow analysis reveals an average market-implied GAP of 29 years for ITB's holdings compared to 77 years for the Consumer Cyclicals sector.

Figure 4 contains our detailed rating for the entire Consumer Cyclicals sector.

**Figure 4: Consumer Cyclicals Sector Breakdown**

Risk/Reward Rating ?	Quality of Earnings ?		Valuation ?		
	Economic vs Reported EPS ?	ROIC ?	2yr Avg FCF (excl cash) Yield ?	Price to EBV ?	Market-Implied GAP ?
Very Unattractive	Misleading Trend	Bottom Quintile	< -5%	> 3.5 or -1 < 0	> 50
Unattractive	False Positive	4th Quintile	-5% < -1%	2.4 < 3.5 or < -1	20 < 50
<b>Neutral</b>	Neutral EE	3rd Quintile	-1% < 3%	1.6 < 2.4	10 < 20
Attractive	<b>Positive EE</b>	2nd Quintile	3% < 10%	1.1 < 1.6	3 < 10
Very Attractive	Rising EE	<b>Top Quintile</b>	> 10%	0 < 1.1	0 < 3
<b>Actual Values</b>					
<b>Sector</b>	<b>Positive EE</b>	<b>19%</b>	<b>1%</b>	<b>3.6</b>	<b>77 yrs</b>
<b>Benchmarks ?</b>					
<b>Sector ETF (XLY)</b>	Positive EE	23%	1%	3.3	80 yrs
<b>S&amp;P 500 ETF (SPY)</b>	Positive EE	35%	1%	3.9	75 yrs
<b>Small Cap ETF (IWM)</b>	Positive EE	5%	-0%	4.2	56 yrs

Sources: New Constructs, LLC and company filings

**Below Average Costs for Premium Holdings**

Below average fees for superior holdings is a winning playbook in any market.

ITB's 0.43% total annual costs (TAC) are below the 1.13% simple average of the Consumer Cyclicals ETFs and mutual funds for which we have assets data under coverage. ITB's TAC are above the 0.23% asset-weighted average.

Figure 5 shows our breakdown of ITB's total annual costs, which is available for all 7,000+ mutual funds and ETFs under coverage.



**Figure 5: ITB Total Annual Costs Breakdown**

Total Annual Costs	
Expense Ratio	0.39%
Total Annual Costs	0.43%
Rank (percentile)	61%

Sources: New Constructs, LLC and company filings

### The Importance of Holdings Based Fund Analysis

We offer clients in-depth reports for all the 7,000+ ETFs and mutual funds under coverage. Click below for a free copy of our standard ETF report on ITB.

[Free Copy of our ITB report](#)

Smart ETF (or fund) investing means analyzing each of the holdings of an ETF. Simply buying an ETF or mutual fund based on past performance [does not necessarily lead](#) to outperformance. Only thorough holdings-based research can help determine if a fund’s methodology leads managers to pick high-quality or low-quality stocks.

Most investors don’t realize they can access superior fundamental research that enables them to [overcome](#) inaccuracies, omissions, and biases in legacy fundamental research and data. Our Robo-Analyst technology analyzes the holdings of all 36 ETFs and mutual funds in the Consumer Cyclical sector and ~7,000+ ETFs and mutual funds under coverage to avoid “[the danger within](#)”.

### Check Out the Indices Based on New Constructs Research

While we’re writing about indices and ETFs, we want to highlight the indices we’ve developed with Bloomberg’s Index Licensing Group. All three outperformed the S&P 500 over the past five years. See Figures 6-8.

1. [Bloomberg New Constructs Core Earnings Leaders Index](#) (ticker: [BCORET:IND](#))
2. [Bloomberg New Constructs Ratings VA-1 Index](#) (ticker: [BNCVA1T:IND](#))
3. [Bloomberg New Constructs 500 Index](#) (ticker: [B500NCT:IND](#))

The Bloomberg New Constructs Core Earnings Leaders Index, which allocates based on Earnings Capture and Core Earnings, beat the S&P 500 by 9% in 2025. The Index (ticker: [BCORET:IND](#)) was up 27% while the S&P 500 was up 18%.



**Figure 6: Bloomberg New Constructs Core Earnings Leaders Index Outperforms S&P 500 in 2025**

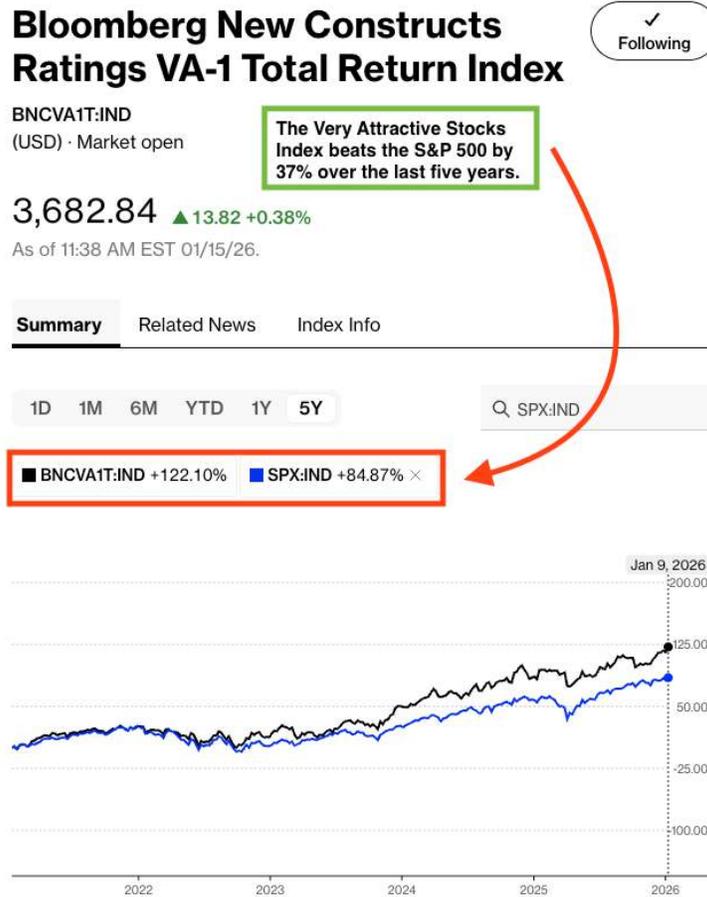


Sources: [Bloomberg](#) as of December 31, 2025  
Note: Past performance is no guarantee of future results.

The “Very Attractive Stocks” Index, which allocates to stocks that get a Very Attractive rating by our AI Agent for Investing, beat the S&P 500 by 37% over the last five years. Bloomberg’s official name for the index is Bloomberg New Constructs Ratings VA-1Index (ticker: [BNCVAT1T:IND](#)). Figure 7 shows it was up 122% while the S&P 500 was up 85%.



**Figure 7: Very Attractive-Rated Stocks Strongly Outperform the S&P 500: Last Five Years**

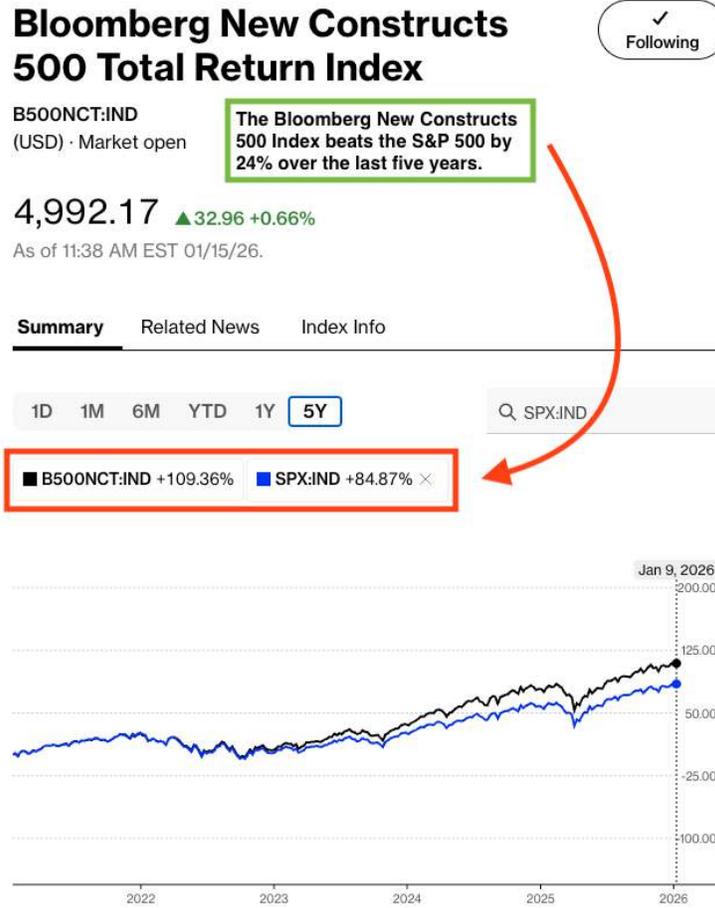


Sources: [Bloomberg](#) as of January 9, 2026  
Note: Past performance is no guarantee of future results.

Our “Core-Earnings Weighted S&P 500” Index, which weights the largest 500 U.S. companies by Core Earnings instead of market cap, beat the S&P 500 by 24% over the past five years. Bloomberg’s official name for the index is Bloomberg New Constructs 500 Total Return Index (ticker: [B500NCT:IND](#)). Figure 8 shows it was up 109% while the S&P 500 was up 85%.



**Figure 8: Bloomberg New Constructs 500 Index Strongly Outperforms the S&P 500: Last Five Years**



Sources: [Bloomberg](#) as of January 9, 2026  
Note: Past performance is no guarantee of future results.

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Disclosure: David Trainer and Kyle Guske II receive no compensation to write about any specific stock, style, or theme.

Questions on this report or others? Join our [online community](#) and connect with us directly.



## ***It's Official: We Deliver 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. The stock market is missing footnotes – and only we have that critical data.
2. Legacy fundamental datasets suffer from significant inaccuracies, omissions, and biases.
3. Our proprietary drives novel alpha. Our measures of [Core Earnings](#) and [Earnings Distortion](#) materially improve stock picking and forecasting of profits.

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

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**

Ernst & Young 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 Harvard Business School. 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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