



## How to Find the Best Sector ETFs

Finding the best ETFs is an increasingly difficult task with so many to choose from. How can you choose with so many available ETF's?

### Why ETF Labels are Confusing

There are at least 44 different Financials ETFs and at least 188 ETFs across all sectors. Do you need that many choices? How different can the ETFs be?

Those 44 Financials ETFs are very different. With anywhere from 22 to 541 holdings, many of these Financials ETFs have drastically different portfolios, creating drastically different investment implications.

The same is true for the ETFs in any other sector, as each offers a very different mix of good and bad stocks. The Consumer Staples sector ranks first. Financials ranks last. Details on the [Best & Worst ETFs in each sector are here.](#)

**How to Properly Assess a Sector ETF:** I firmly believe ETFs for a given sector should be similar. I think the large number of Financials (or any other) sector of ETFs 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 ETFs. Analyzing ETFs, done with the proper diligence, is far more difficult than analyzing stocks because it means analyzing all the stocks within each ETF.

To be a smart investor, you understand analyzing the holdings of an ETF is critical to finding the best ETF. Figure 1 displays the best ETF in each sector.

**Figure 1: The Best ETF in Each Sector**

Ticker	Name	Sector	Assets (\$mm)	Rating
PMR	PowerShares Dynamic Retail ETF	Consumer Discretionary	\$20	4 Stars
FSTA	Fidelity MSCI Consumer Staples Index ETF	Consumer Staples	\$194	5 Stars
OIH	Van Eck Market Vectors Oil Services ETF	Energy	\$1,274	3 Stars
KBWP	PowerShares KBW Property & Casualty Insurance	Financials	\$10	5 Stars
IHI	iShares Dow Jones U.S. Medical Devices Index Fund	Health Care	\$789	5 Stars
XLI	State Street SPDR Industrial Select Sector Fund ETF	Industrials	\$9,431	5 Stars
TDIV	First Trust NASDAQ Technology Dividend Index ETF	Information Technology	\$734	5 Stars
XLB	State Street SPDR Materials Select Sector Fund ETF	Materials	\$3,138	3 Stars
PBS	PowerShares Dynamic Media ETF	Telecom	\$166	3 Stars
XLU	State Street SPDR Utilities Select Sector Fund ETF	Utilities	\$6,302	3 Stars

Sources: New Constructs, LLC and company filings

### How to Avoid “The Danger Within”

Why do you need to know the holdings of ETFs before they buy? T You need to know 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 ETF's performance will be bad.

PERFORMANCE OF FUND'S HOLDINGS = PERFORMANCE OF FUND

New Constructs covers over 3000 stocks and is known for the due diligence we do for each stock we cover. Accordingly, our coverage of ETFs leverages the diligence we do on each stock by rating ETFs based on the aggregated ratings of the stocks each ETF holds.



PowerShares KBW Property & Casualty Insurance Portfolio (KBWP) is the top-rated Financials ETF and the overall top ranked fund of the 188 sector ETFs that I cover.

The worst ETF in Figure 1 is State Street SPDR Utilities Select Sector Fund ETF (XLU), which gets a Neutral (3-star) rating. One would think ETF providers could do better for this sector.

To see ratings on all the ETFs we cover, start your Gold Membership today.

*Kyle Guske II contributed to this post.*

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



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1. Based on the complete set of financial information available.
2. Standard for all companies.
3. A more accurate representation of the true underlying cash flows of the business.

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