



How To Find the Best Sector ETFs

Finding the best ETFs is an increasingly difficult task in a world with so many to choose from. How can you pick with so many choices available?

Don't Trust ETF Labels

There are at least 43 different Financials ETFs and at least 188 ETFs across all sectors. Do investors need that many choices? How different can the ETFs be?

Those 43 Financials ETFs are very different. With anywhere from 20 to 556 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. Consumer Staples ranks first. Energy ranks last. Details on the [Best & Worst ETFs in each sector are here.](#)

A Recipe for Paralysis By Analysis

We firmly believe ETFs for a given sector should not all be that different. We think the large number of Financials (or any other) sector 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. As stated above, that can be as many as 556 stocks, and sometimes even more, for one ETF.

Any investor worth his salt recognizes that analyzing the holdings of an ETF is critical to finding the best ETF. Figure 1 shows our top rated ETF for each sector.

Figure 1: The Best ETF in Each Sector

Ticker	Name	Sector	Assets (\$mm)
XLY	Consumer Discretionary Select Sector SPDR	Consumer Discretionary	\$10,533
XLP	Consumer Staples Select Sector SPDR	Consumer Staples	\$7,610
OIH	Market Vectors Oil Services ETF	Energy	\$1,145
KBWP	PowerShares KBW Property & Casualty Insurance ETF	Financials	\$13
VHT	Vanguard Health Care ETF	Health Care	\$5,619
XLI	Industrial Select SPDR Fund	Industrials	\$8,036
TDIV	First Trust NASDAQ Technology Dividend Index Fund	Information Technology	\$714
IYM	iShares U.S. Basic Materials ETF	Materials	\$507
XTL	SPDR S&P Telecom ETF	Telecom Services	\$98
XLU	Utilities Select Sector SPDR Fund	Utilities	\$6,448

Sources: New Constructs, LLC and company filings

How to Avoid "The Danger Within"

Why do you need to know the holdings of ETFs before you buy?

You need to be sure you do not buy an ETF that might blow up. Buying an ETF 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

If Only Investors Could Find Funds Rated by Their Holdings

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 ETF (KBWP) is the top-rated Financials ETF and the overall best ETF of the 188 sector ETFs that I cover.

The worst ETF in Figure 1 is SPDR S&P Telecom ETF (XTL), which gets our Dangerous rating. One would think ETF providers could do better for this sector.

Disclosure: David Trainer and Max Lee 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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