



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 40 different Financials ETFs and at least 180 ETFs across ten sectors. Do investors need 18+ choices on average per sector? How different can the ETFs be?

Those 40 Financials ETFs are very different. With anywhere from 22 to 579 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 for stock selection. Utilities ranks last. Details on the [Best & Worst ETFs in each sector are here](#).

A Recipe for Paralysis By Analysis

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 579 stocks, and sometimes even more, for one ETF.

Any investor focused on fulfilling fiduciary duties 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)
PSCD	PowerShares S&P SmallCap Cons Discretionary Portfolio	Consumer Discretionary	\$83
VDC	Vanguard Consumer Staples Index Fund; ETF Shares	Consumer Staples	\$2,705
OIH	Van Eck Market Vectors Oil Services ETF	Energy	\$996
KBWP	PowerShares KBW Property & Casualty Insurance	Financials	\$74
XLV	State Street Select Health Care Select Sector SPDR Fund	Health Care	\$12,994
JETS	US Global Jets ETF	Industrials	\$47
SMH	Van Eck Market Vectors Semiconductor ETF	Information Technology	\$195
IYM	iShares US Basic Materials ETF	Materials	\$294
IGN	iShares North American Tech-Multimedia Networking ETF	Telecom Services	\$51
UTES	ETFis Series Trust I: Reaves Utilities ETF	Utilities	\$7

Sources: New Constructs, LLC and company filings

PowerShares KBW Property & Casualty Insurance (KBWP) ranks first, Van Eck Market Vectors Semiconductor (SMH) ranks second, and Vanguard Consumer Staples Index Fund (VDC) ranks third. Van Eck Market Vectors Oil Services (OIH) ranks last.

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. Don't just take my word for it, see [what Barron's says](#) on this matter.

PERFORMANCE OF FUND'S HOLDINGS = PERFORMANCE OF FUND

If Only Investors Could Find Funds Rated by Their Holdings

Our [ETF ratings](#) leverage our [stock coverage](#). We rate 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 best ETF of the 180 sector ETFs that we cover.

The worst ETF in Figure 1 is Van Eck Market Vectors Oil Services ETF (OIH), which gets a Neutral rating. One would think ETF providers could do better for this sector.

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



New Constructs® – Profile

How New Constructs Creates Value for Clients

We find it. You benefit. Cutting-edge technology enables us to scale our [forensic accounting expertise](#) across 3000+ stocks. We shine a light in the dark corners of SEC filings so our clients can make safer, more informed decisions.

Our [stock rating methodology](#) instantly informs you of the quality of the business and the fairness of the stock's valuation. We do the diligence on earnings quality and valuation so you don't have to.

In-depth risk/reward analysis underpins our ratings. Our rating methodology grades every stock, ETF, and mutual fund according to what we believe are the 5 most important criteria for assessing the quality of an equity. Each grade reflects the balance of potential risk and reward of buying that equity. Our analysis results in the 5 ratings described below. Very Attractive and Attractive correspond to a "Buy" rating, Very Dangerous and Dangerous correspond to a "Sell" rating, while Neutral corresponds to a "Hold" rating.

QUESTION: Why shouldn't fund research be as good as stock research? Why should fund investors rely on backward-looking price trends?

ANSWER: They should not.

Don't judge a fund by its cover. Take a look inside at its holdings and understand the quality of earnings and valuation of the stocks it holds. We enable you to choose the best fund based on its stock-picking merits so you do not have to rely solely on backward-looking technical metrics.

The drivers of our [forward-looking fund ratings](#) are Portfolio Management (i.e. the aggregated ratings of its holdings) and Total Annual Costs. The Total Annual Costs Rating ([details here](#)) captures the all-in cost of being in a fund over a 3-year holding period, the average period for all fund investors.

Our Philosophy About Research

Accounting data is not designed for equity investors, but for debt investors. [Accounting data must be translated into economic earnings](#) to understand the profitability and valuation relevant to equity investors. Respected investors (e.g. Adam Smith, Warren Buffett and Ben Graham) have repeatedly emphasized that accounting results should not be used to value stocks. [Economic earnings](#) are what matter because they are:

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.

Additional Information

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