



ETF & Mutual Fund Rankings: Energy Sector

The Energy sector ranks ninth out of the ten sectors as detailed in our [3Q16 Sector Ratings for ETFs and Mutual Funds](#) report. [Last quarter](#), the Energy sector ranked last. It gets our Dangerous rating, which is based on an aggregation of ratings of 22 ETFs and 114 mutual funds in the Energy sector as of July 12, 2016. See a recap of our [2Q16 Sector Ratings here](#).

Figures 1 and 2 show the five best and worst rated ETFs and mutual funds in the sector. Not all Energy sector ETFs and mutual funds are created the same. The number of holdings varies widely (from 25 to 146). This variation creates drastically different investment implications and, therefore, ratings.

Investors should not buy any Energy ETFs or mutual funds because none get an Attractive-or-better rating. If you must have exposure to this sector, you should buy a basket of Attractive-or-better rated stocks and avoid paying undeserved fund fees. Active management has a [long history](#) of not paying off.

Figure 1: ETFs with the Best & Worst Ratings – Top 5

Ticker	Allocation of ETF Holdings			Predictive Rating
	Attractive-or-better Stocks	Neutral Stocks	Dangerous-or-worse Stocks	
Best ETFs				
OIH	10%	16%	73%	Neutral
XES	18%	21%	59%	Neutral
IEZ	10%	17%	71%	Neutral
IGE	4%	6%	76%	Dangerous
FCG	0%	0%	81%	Dangerous
Worst ETFs				
VDE	4%	2%	89%	Dangerous
FENY	4%	2%	91%	Dangerous
XLE	6%	1%	92%	Dangerous
IYE	4%	2%	92%	Dangerous
FIW	0%	17%	78%	Very Dangerous

* Best ETFs exclude ETFs with TNAs less than \$100 million for inadequate liquidity.

Sources: New Constructs, LLC and company filings

PowerShares Dynamic Oil & Gas Services Portfolio (PXJ) and VanEck Vectors Unconventional Oil & Gas ETF (FRAK) are excluded from Figure 1 because their total net assets (TNA) are below \$100 million and do not meet our liquidity minimums.

Figure 2: Mutual Funds with the Best & Worst Ratings – Top 5

Ticker	Allocation of Mutual Fund Holdings			Predictive Rating
	Attractive-or-better Stocks	Neutral Stocks	Dangerous-or-worse Stocks	
Best Mutual Funds				
IENIX	0%	5%	67%	Dangerous
MAGRX	4%	3%	69%	Dangerous
FSENX	5%	2%	73%	Dangerous
FSESX	6%	7%	60%	Dangerous
IENYX	0%	5%	67%	Dangerous
Worst Mutual Funds				
RYVAX	13%	14%	71%	Very Dangerous
RYVCX	13%	14%	71%	Very Dangerous
RYESX	13%	14%	71%	Very Dangerous
PGEAX	0%	1%	69%	Very Dangerous
SBMBX	12%	8%	72%	Very Dangerous

* Best mutual funds exclude funds with TNAs less than \$100 million for inadequate liquidity.

Sources: New Constructs, LLC and company filings

Miller/Howard Drill Bit To Burner Tip Fund (DBBEX and DBBDX) are excluded from Figure 2 because its total net assets (TNA) are below \$100 million and do not meet our liquidity minimums.

VanEck Vectors Oil Services ETF (OIH) is the top-rated Energy ETF and Invesco Energy Fund (IENIX) is the top-rated Energy mutual fund. OIH earns a Neutral rating and IENIX earns a Dangerous rating.

First Trust ISE Water Index Fund (FIW) is the worst rated Energy ETF and Saratoga Energy and Basic Materials Portfolio (SBMBX) is the worst rated Energy mutual fund. Both earn a Very Dangerous rating.

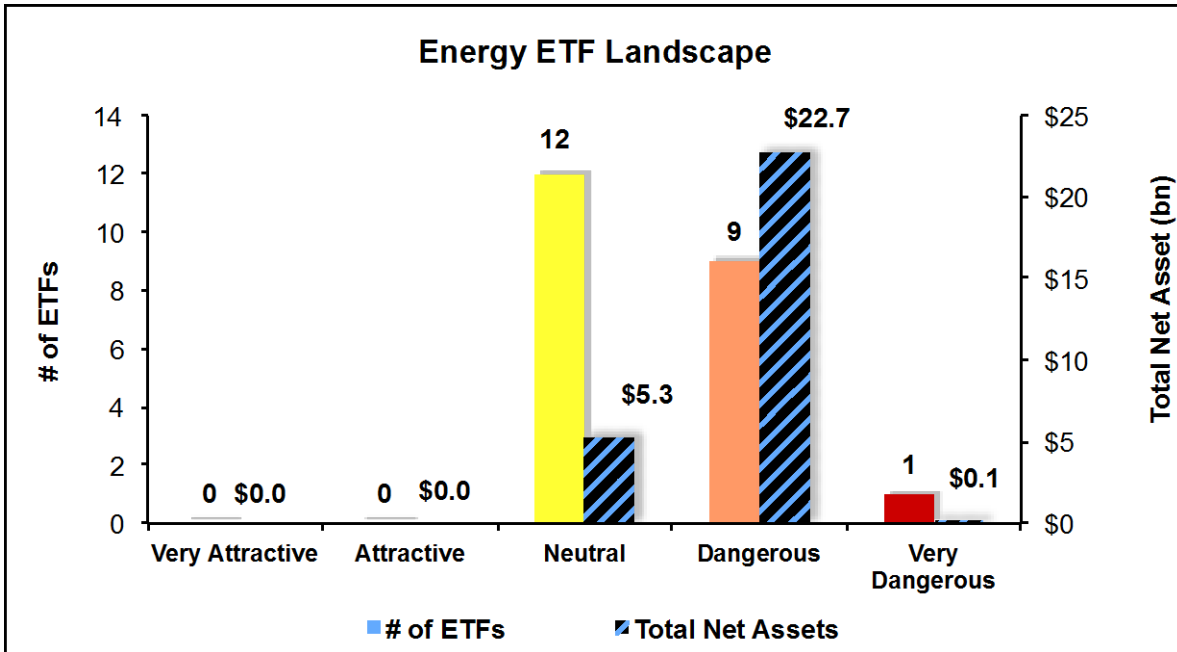
174 stocks of the 3000+ we cover are classified as Energy stocks.

Matrix Service Company (MTRX: \$16/share) is one of our favorite stocks held by Energy ETFs and mutual funds and earns a Very Attractive rating. Since 1998, MTRX has grown after-tax profit ([NOPAT](#)) by 18% compounded annually. The company's return on invested capital ([ROIC](#)) has improved from 2% in 1998 to a top-quintile 16% over the last twelve months. Despite the long-term profit growth, MTRX is significantly undervalued. At its current price of \$16/share, MTRX has a price to economic book value ([PEBV](#)) ratio of 0.7. This ratio means that the market expects Matrix's NOPAT to permanently decline by 30%. This expectation seems too pessimistic given the history of profit growth achieved by Matrix. If MTRX can [grow NOPAT by just 4% compounded annually for the next decade](#), the stock is worth \$19/share today – a 20% upside.

Consol Energy (CNX: \$16/share) is one of our least favorite stocks held by Energy ETFs and mutual funds and earns a Dangerous rating. Since 2009, Consol's NOPAT has declined by 16% compounded annually to \$241 million in 2015. Over the last twelve months, NOPAT has fallen to -\$31 million. Additionally, Consol's ROIC has declined from 10% in 2009 to a bottom-quintile 0% TTM. Despite the deterioration of the business, CNX is up over 30% in the past three months alone, and the shares are overvalued. To justify its current price of \$16/share, CNX must [grow NOPAT by 11% compounded annually for the next 15 years](#). This expectation seems overly optimistic given the profit decline at CNX since 2009.

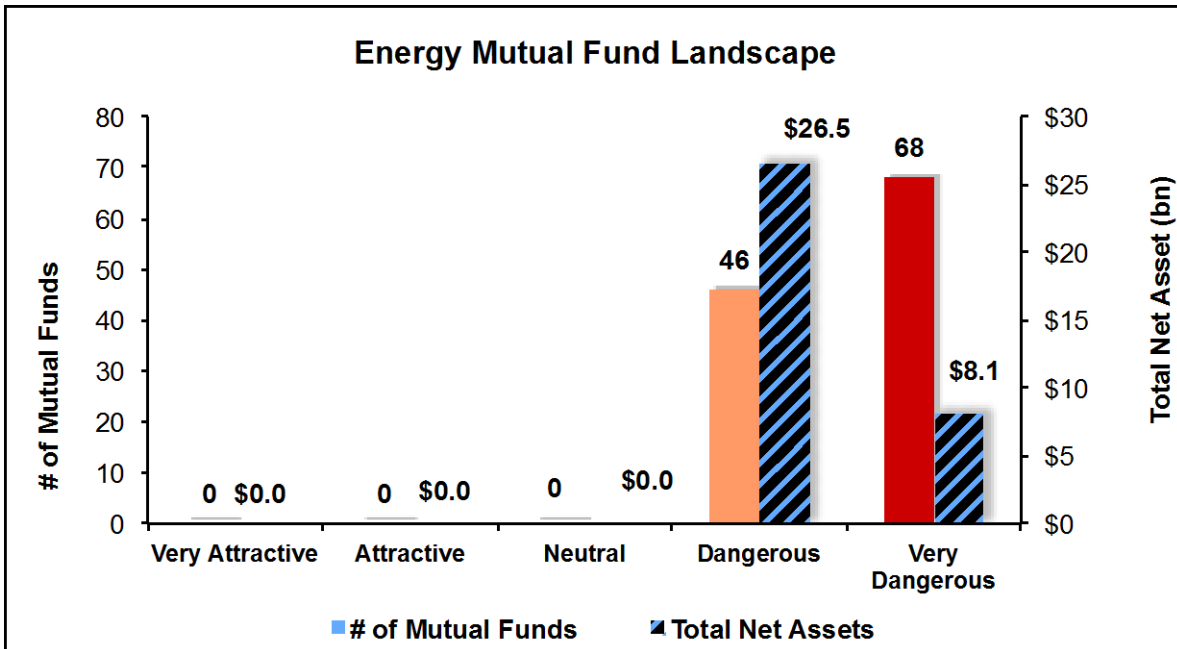
Figures 3 and 4 show the rating landscape of all Energy ETFs and mutual funds.

Figure 3: Separating the Best ETFs From the Worst ETFs



Sources: New Constructs, LLC and company filings

Figure 4: Separating the Best Mutual Funds From the Worst Mutual Funds



Sources: New Constructs, LLC and company filings

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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.

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