ETF & Mutual Fund Rankings: Health Care

The Health Care sector ranks eighth out of the 11 sectors as detailed in our 4Q17 Sector Ratings for ETFs and Mutual Funds report. Last quarter, the Health Care sector ranked eighth as well. It gets our Neutral rating, which is based on an aggregation of ratings of 23 ETFs and 85 mutual funds in the Health Care sector as of October 5, 2017. See a recap of our 3Q17 Sector Ratings here.

Figures 1 and 2 show the five best and worst rated ETFs and mutual funds in the sector. Not all Health Care sector ETFs and mutual funds are created the same. The number of holdings varies widely (from 23 to 363). This variation creates drastically different investment implications and, therefore, ratings.

Investors seeking exposure to the Health Care sector should buy one of the Attractive-or-better rated ETFs or mutual funds from Figures 1 and 2.

Our Robo-Analyst technology empowers our unique ETF and mutual fund rating methodology, which leverages our rigorous analysis of each fund's holdings[1]. We think advisors and investors focused on prudent investment decisions should include analysis of fund holdings in their research process for ETFs and mutual funds.

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

	Allocation of ETF Holdings			
Ticker	**Attractive-or-better Stocks**	**Neutral Stocks**	**Unattractive-or-worse Stocks**	**Predictive Rating**
Best ETFs				
IHF	18%	66%	9%	Very Attractive
XLV	22%	47%	31%	Attractive
PPH	29%	42%	22%	Attractive
IXJ	18%	37%	30%	Attractive
FHLC	20%	43%	34%	Neutral
Worst ETFs				
PBE	22%	15%	60%	Unattractive
PTH	1%	27%	42%	Unattractive
XBI	14%	7%	58%	Very Unattractive
FBT	13%	7%	67%	Very Unattractive
BBP	11%	7%	73%	Very Unattractive

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

Sources: New Constructs, LLC and company filings

S&P Health Care Services SPDR (XHS) is excluded from Figure 1 because its total net assets (TNA) are below $100 million and does not meet our liquidity minimums.

[1] Ernst & Young's recent white paper "Getting ROIC Right" proves the superiority of our holdings research and analytics.

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

	Allocation of Mutual Fund Holdings			
Ticker	**Attractive-or-better Stocks**	**Neutral Stocks**	**Unattractive-or-worse Stocks**	**Predictive Rating**
Best Mutual Funds				
FSHCX	19%	69%	4%	**Very Attractive**
FSMEX	3%	32%	48%	**Attractive**
SWHFX	28%	27%	28%	**Attractive**
SHSKX	16%	42%	32%	**Neutral**
FPHAX	26%	26%	30%	**Neutral**
Worst Mutual Funds				
PHLCX	5%	25%	47%	**Very Unattractive**
PHLBX	5%	25%	47%	**Very Unattractive**
AHSAX	10%	30%	40%	**Very Unattractive**
FBDIX	15%	6%	51%	**Very Unattractive**
PHLAX	5%	25%	47%	**Very Unattractive**

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

Sources: New Constructs, LLC and company filings

Live Oak Health Sciences Fund (LOGSX) and Saratoga Health & Biotechnology (SBHIX) are excluded from Figure 2 because their total net assets (TNA) are below $100 million and do not meet our liquidity minimums.

iShares US Healthcare Providers (IHF) is the top-rated Health Care ETF and Fidelity Health Care Services Portfolio (FSHCX) is the top-rated Health Care mutual fund. Both funds earn a Very Attractive rating.

Virtus LifeSci Biotech Products ETF (BBP) is the worst rated Health Care ETF and Prudential Jennison Health Sciences Fund (PHLAX) is the worst rated Health Care mutual fund. Both funds earn a Very Unattractive rating.

339 stocks of the 3000+ we cover are classified as Health Care stocks.

The Danger Within

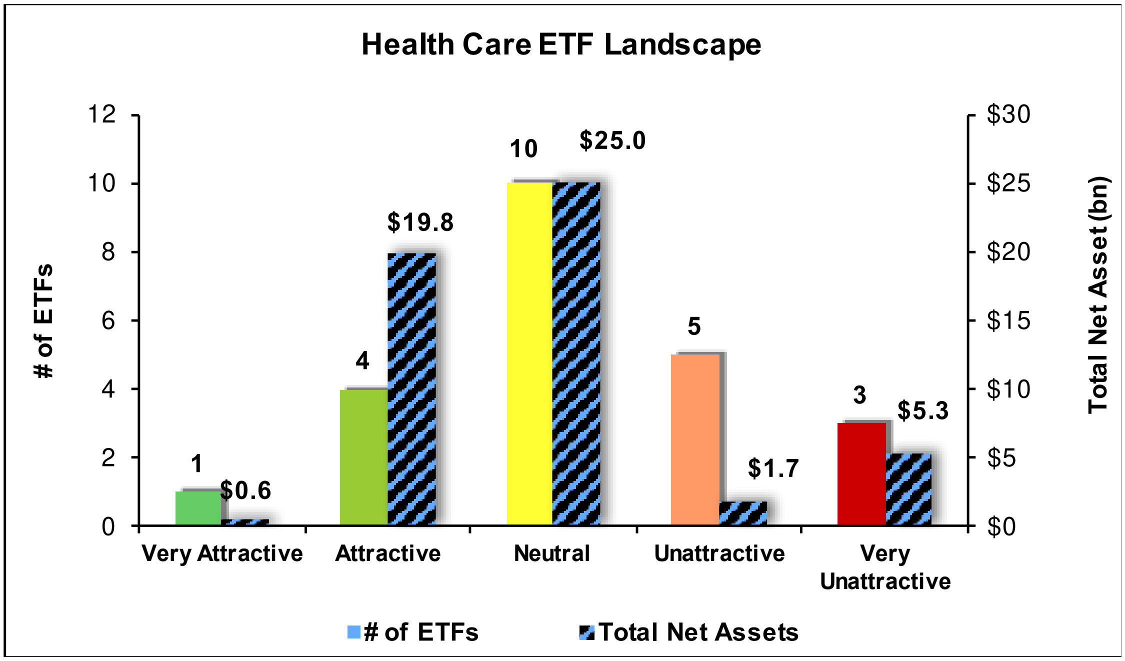
Buying a fund without analyzing its holdings is like buying a stock without analyzing its business and finances. Put another way, research on fund holdings is necessary due diligence because a fund's performance is only as good as its holdings' performance. Don't just take our word for it, see what Barron's says on this matter.

PERFORMANCE OF HOLDINGs = PERFORMANCE OF FUND

Analyzing each holding within funds is no small task. Our Robo-Analyst technology enables us to perform this diligence with scale and provide the research needed to fulfill the fiduciary duty of care. More of the biggest names in the financial industry (see At BlackRock, Machines Are Rising Over Managers to Pick Stocks) are now embracing technology to leverage machines in the investment research process. Technology may be the only solution to the dual mandate for research: cut costs and fulfill the fiduciary duty of care. Investors, clients, advisors and analysts deserve the latest in technology to get the diligence required to make prudent investment decisions.

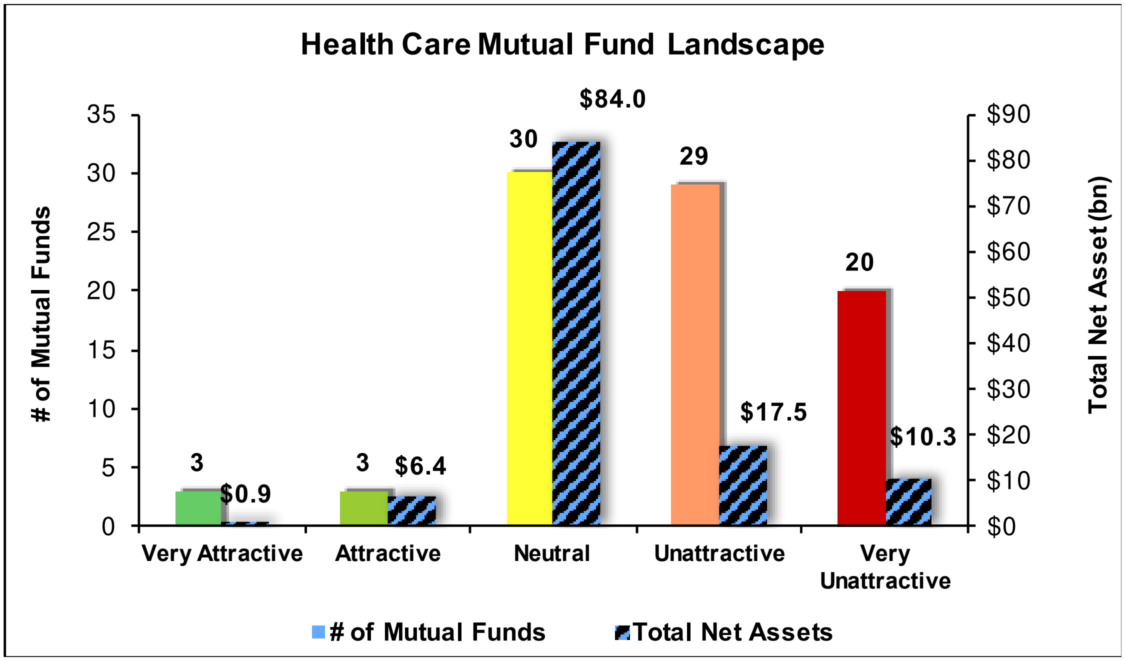
Figures 3 and 4 show the rating landscape of all Health Care ETFs and mutual funds.

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, Kyle Guske II and Kenneth James receive no compensation to write about any specific stock, sector or theme.

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Ratings & screeners on 3000 stocks, 450 ETFs and 7000 mutual funds help you make prudent investment decisions.

New Constructs leverages the latest in machine learning to analyze structured and unstructured financial data with unrivaled speed and accuracy. The firm's forensic accounting experts work alongside engineers to develop proprietary NLP libraries and financial models. Our investment ratings are based on the best fundamental data in the business for stocks, ETFs and mutual funds. Clients include many of the top hedge funds, mutual funds and wealth management firms. David Trainer, the firm's CEO, is regularly featured in the media as a thought leader on the fiduciary duty of care, earnings quality, valuation and investment strategy.

To fulfill the Duty of Care, research should be:

1. **Comprehensive** - All relevant publicly-available (e.g. 10-Ks and 10-Qs) information has been diligently reviewed, including footnotes and the management discussion & analysis (MD&A).
2. **Un-conflicted** - Clients deserve unbiased research.
3. **Transparent** - Advisors should be able to show how the analysis was performed and the data behind it.
4. **Relevant** - Empirical evidence must provide tangible, quantifiable correlation to stock, ETF or mutual fund performance.

Value Investing 2.0: Diligence Matters: Technology is Key to Value Investing With Scale

Accounting data is only the beginning of fundamental research. It must be translated into economic earnings to truly understand profitability and valuation. This translation requires deep analysis of footnotes and the MD&A, a process that our robo-analyst technology empowers us to perform for thousands of stocks, ETFs and mutual funds.

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