Sector Ratings for ETFs & Mutual Funds

At the beginning of the fourth quarter of 2017, only the Consumer Staples and Financials sectors earn an Attractive-or-better rating. Our sector ratings are based on the aggregation of our fund ratings for every ETF and mutual fund in each sector. See last quarter's Sector Ratings here.

Investors looking for sector funds that hold quality stocks should look no further than the Consumer Staples and Financials sectors. These sectors house the highest rated funds. Figures 4 through 7 provide more details. The primary driver behind an Attractive fund rating is good portfolio management, or good stock picking, with low total annual costs.

Attractive-or-better ratings do not always correlate with Attractive-or-better total annual costs. This fact underscores that (1) cheap funds can dupe investors and (2) investors should invest only in funds with good stocks and low fees.

Our Robo-Analyst technology empowers our unique ETF and mutual fund rating methodology, which leverages our rigorous analysis of each fund's holdings[1].

See Figures 4 through 13 for a detailed breakdown of ratings distributions by sector. See our ETF & mutual fund screener for rankings, ratings and reports on 7000+ mutual funds and 400+ ETFs.

All of our reports on the best & worst ETFs and mutual funds in every sector are available here.

Figure 1: Ratings for All Sectors

Sector	Overall Rating
Energy	Very Unattractive
Real Estate	Unattractive
Utilities	Neutral
Health Care	Neutral
Telecom	Neutral
Materials	Neutral
Cons Disc	Neutral
Industrials	Neutral
Info Tech	Neutral
Financials	Attractive
Cons Staples	Very Attractive

Source: New Constructs, LLC and company filings

To earn an Attractive-or-better Predictive Rating, an ETF or mutual fund must have high-quality holdings and low costs. Only the top 30% of all ETFs and mutual funds earn our Attractive or better ratings.

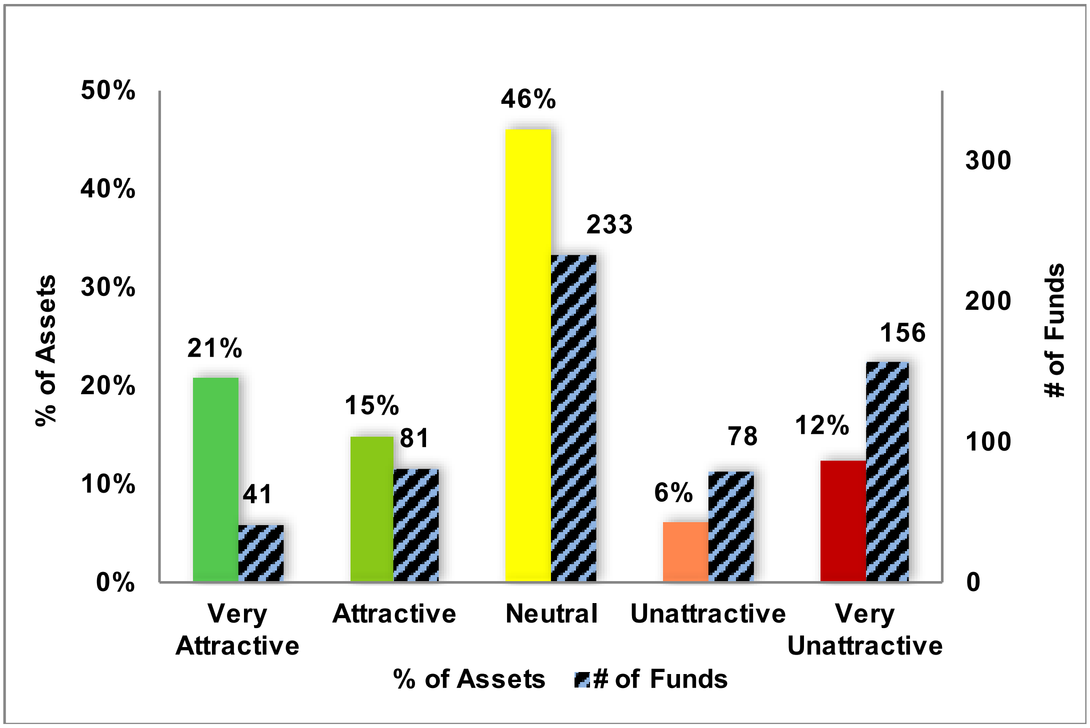
Fidelity MSCI Consumer Staples Index (FSTA) is the top rated Consumer Staples fund. It gets our Very Attractive rating by allocating over 68% of its value to Attractive-or-better-rated stocks.

Saratoga Energy and Basic Materials Portfolio (SBMBX) is the worst rated Energy fund. It gets our Very Unattractive rating by allocating over 59% of its value to Unattractive-or-worse-rated stocks. Making matters worse, it charges investors annual costs of 7.12%.

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

Figure 2 shows the distribution of our Predictive Ratings for all sector ETFs and mutual funds.

Figure 2: Distribution of ETFs & Mutual Funds (Assets and Count) by Predictive Rating



Source: New Constructs, LLC and company filings

Figure 3 offers additional details on the quality of the sector funds. Note that the average total annual cost of Very Unattractive funds is almost five times that of Very Attractive funds.

Figure 3: Predictive Rating Distribution Stats

	Very Attractive	Attractive	Neutral	Unattractive	Very Unattractive
# of ETFs & Funds	41	81	233	78	156
% of ETFs & Funds	7%	14%	40%	13%	26%
% of TNA	21%	15%	46%	6%	12%
Avg TAC	0.21%	0.66%	0.75%	2.13%	0.95%

* Avg TAC = Weighted Average Total Annual Costs

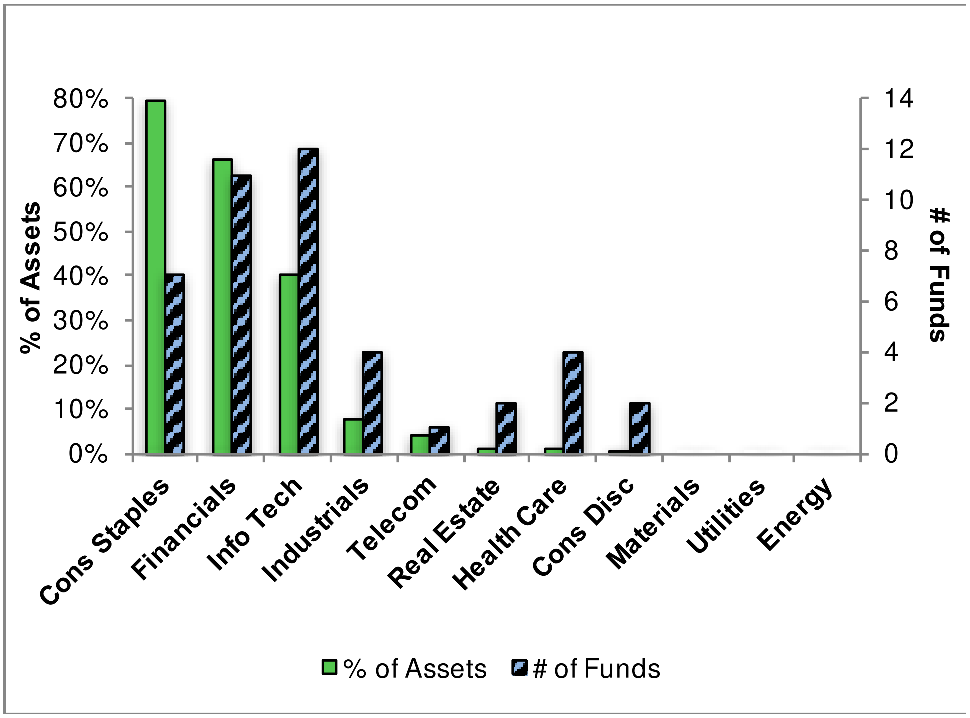
Source: New Constructs, LLC and company filings

This table shows that only the best of the best funds get our Very Attractive Rating: they must hold good stocks AND have low costs. Investors deserve to have the best of both and we are here to give it to them.

Ratings by Sector

Figure 4 presents a mapping of Very Attractive funds by sector. The chart shows the number of Very Attractive funds in each sector and the percentage of assets in each sector allocated to funds that are rated Very Attractive.

Figure 4: Very Attractive ETFs & Mutual Funds by Sector



Source: New Constructs, LLC and company filings

Figure 5 presents the data charted in Figure 4.

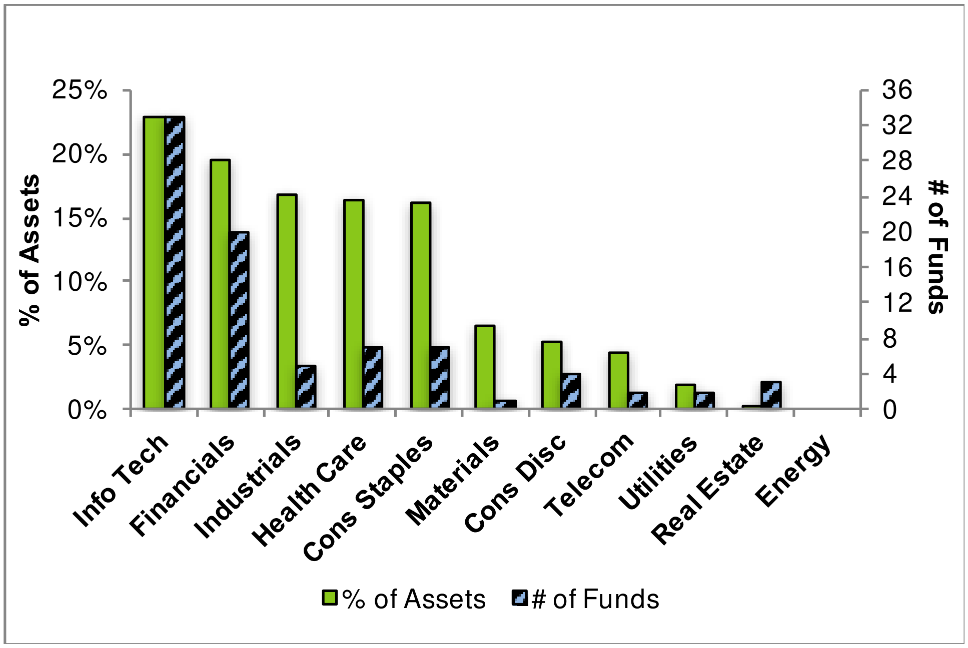
Figure 5: Very Attractive ETFs & Mutual Funds by Sector

Sector	% of Sector Assets	# of Very Attractive Funds	% of Very Attractive Funds in Sector
Cons Staples	79%	7	35%
Financials	66%	11	19%
Info Tech	40%	12	8%
Industrials	7%	4	11%
Telecom	4%	1	7%
Real Estate	1%	2	1%
Health Care	1%	4	4%
Cons Disc	0%	2	8%
Materials	0%	0	0%
Utilities	0%	0	0%
Energy	0%	0	0%

Source: New Constructs, LLC and company filings

Figure 6 presents a mapping of Attractive funds by sector. The chart shows the number of Attractive funds in each sector and the percentage of assets allocated to Attractive-rated funds in each sector.

Figure 6: Attractive ETFs & Mutual Funds by Sector



Source: New Constructs, LLC and company filings

Figure 7 presents the data charted in Figure 6.

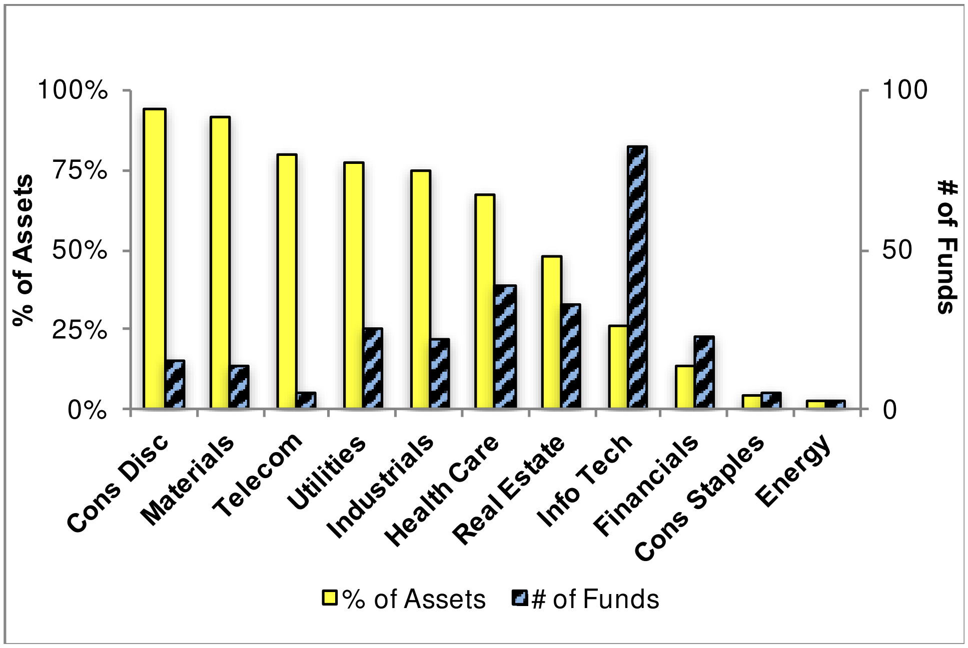
Figure 7: Attractive ETFs & Mutual Funds by Sector

Sector	% of Sector Assets	# of Attractive Funds	% of Attractive Funds in Sector
Info Tech	23%	33	22%
Financials	20%	20	34%
Industrials	17%	5	13%
Health Care	16%	7	6%
Cons Staples	16%	7	35%
Materials	7%	1	6%
Cons Disc	5%	4	17%
Telecom	4%	2	13%
Utilities	2%	2	5%
Real Estate	0%	3	1%
Energy	0%	0	0%

Source: New Constructs, LLC and company filings

Figure 8 presents a mapping of Neutral funds by sector. The chart shows the number of Neutral funds in each sector and the percentage of assets allocated to Neutral-rated funds in each sector.

Figure 8: Neutral ETFs & Mutual Funds by Sector



Source: New Constructs, LLC and company filings

Figure 9 presents the data charted in Figure 8.

Figure 9: Neutral ETFs & Mutual Funds by Sector

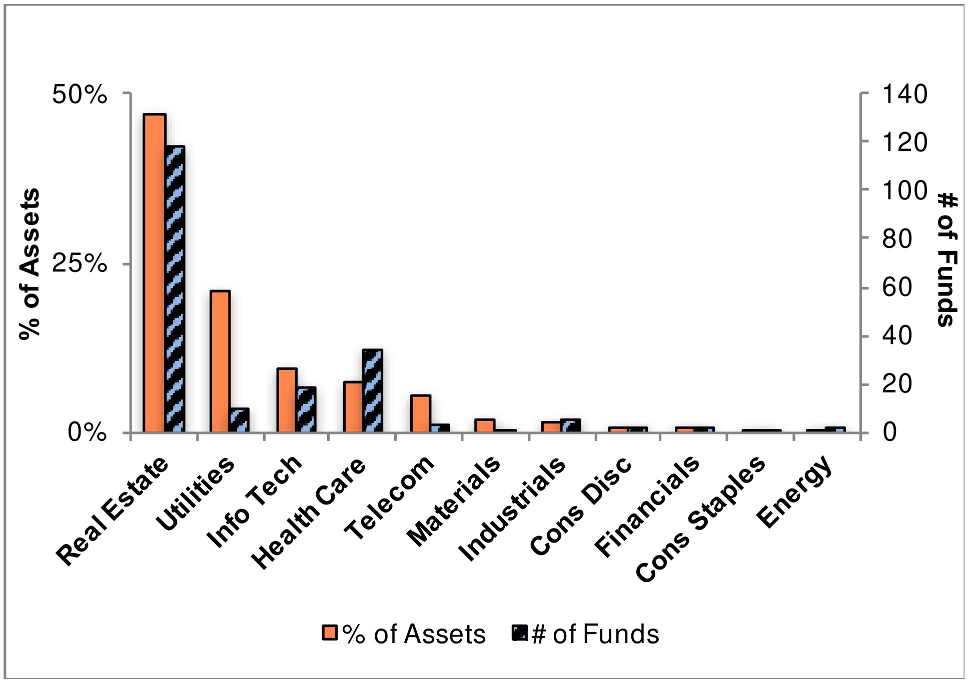
Sector	% of Sector Assets	# of Neutral Funds	% of Neutral Funds in Sector
Cons Disc	94%	15	63%
Materials	92%	14	88%
Telecom	80%	5	33%
Utilities	77%	25	64%
Industrials	74%	22	58%
Health Care	67%	39	36%
Real Estate	48%	33	16%
Info Tech	27%	82	55%
Financials	14%	23	39%
Cons Staples	4%	5	25%
Energy	2%	3	3%

Source: New Constructs, LLC and company filings

Figure 10 presents a mapping of Unattractive funds by fund sector. The chart shows the number of Unattractive funds in each sector and the percentage of assets allocated to Unattractive-rated funds in each sector.

The landscape of sector ETFs and mutual funds is littered with Unattractive funds. Investors in Real Estate have put over 47% of their assets in Unattractive-rated funds.

Figure 10: Unattractive ETFs & Mutual Funds by Sector



Source: New Constructs, LLC and company filings

Figure 11 presents the data charted in Figure 10.

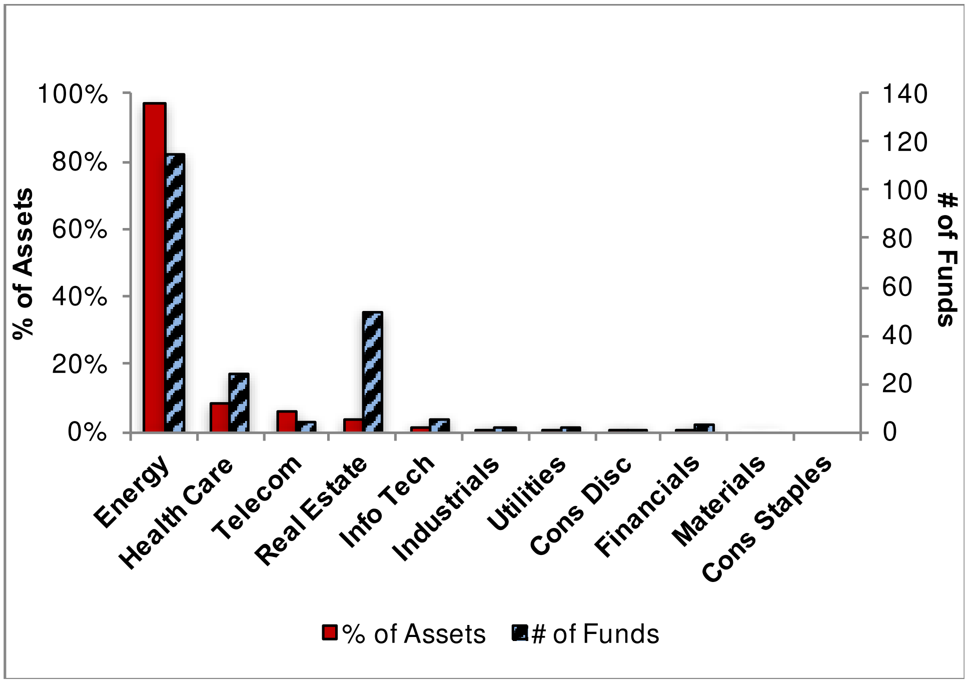
Figure 11: Unattractive ETFs & Mutual Funds by Sector

Sector	% of Sector Assets	# of Unattractive Funds	% of Unattractive Funds in Sector
Real Estate	47%	118	57%
Utilities	21%	10	26%
Info Tech	9%	18	12%
Health Care	8%	34	31%
Telecom	5%	3	20%
Materials	2%	1	6%
Cons Disc	1%	2	8%
Financials	1%	2	3%
Cons Staples	0%	1	5%
Energy	0%	2	2%
Industrials	1%	5	13%

Source: New Constructs, LLC and company filings

Figure 12 presents a mapping of Very Unattractive funds by fund sector. The chart shows the number of Very Unattractive funds in each sector and the percentage of assets in each sector allocated to funds that are rated Very Unattractive.

Figure 12: Very Unattractive ETFs & Mutual Funds by Sector



Source: New Constructs, LLC and company filings

Figure 13 presents the data charted in Figure 12.

Figure 13: Very Unattractive ETFs & Mutual Funds by Sector

Sector	% of Sector Assets	# of Very Unattractive Funds	% of Very Unattractive Funds in Sector
Energy	97%	115	96%
Health Care	8%	24	22%
Telecom	6%	4	27%
Real Estate	4%	50	24%
Info Tech	1%	5	3%
Industrials	0%	2	5%
Utilities	0%	2	5%
Financials	0%	3	5%
Materials	0%	0	0%
Cons Staples	0%	0	0%
Cons Disc	0%	1	4%

Source: 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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Appendix: Predictive Fund Rating System

New Constructs' Predictive fund Ratings enable smarter investing by assessing the key drivers of future fund performance. We start by analyzing every funds' holdings based on New Constructs' stock ratings, which are regularly featured as among the best by Barron's. Next, we measure and rank the all-in fund expenses. Finally, we rank the fund compared to all other funds to identify the best and worst funds in the market.

Intuitively, there are two drivers for future fund performance.

1. Stock-picking (Portfolio Management Rating) and
2. Fund expenses (Total Annual Costs Rating)

Our Predictive Fund Rating is based on these drivers and the fund's ranking:

1. Top 10% = Very Attractive Rating
2. Next 20% = Attractive Rating
3. Next 40% = Neutral Rating
4. Next 20% = Unattractive Rating
5. Bottom 10% = Very Unattractive Rating

The figure below details the criteria that drive our Predictive Rating system for funds. The two drivers of our predictive ratings system are Portfolio Management and Total Annual Costs. The Portfolio Management ratings (detail here) is the same as our Stock Rating (detail here) except that we incorporate Asset Allocation (details here). The Total Annual Costs Ratings (details here) captures the all-in costs of being in a fund over a 3-year holding period, the average period for all mutual funds.

Predictive Rating	Portfolio Management Rating						Total Annual Costs
	Business Strength		Valuation			Cash Allocation	
	Quality of Earnings	Return on Invested Capital	FCF Yield	Price to Economic Book Value	Market-Implied Duration of Growth		
Very Unattractive	Misleading Trend	Bottom Quintile	< -5%	>3.5 or -1<0	> 50	> 20%	> 4 %
Unattractive	False Positive	4th Quintile	-5% < -1%	2.4<3.5 or <-1	20 < 50	8% < 20%	2% < 4%
Neutral	Neutral EE	3rd Quintile	-1% < 3%	1.6 < 2.4	10 < 20	2.5% < 8%	1% < 2%
Attractive	Positive EE	2nd Quintile	3% < 10%	1.1 < 1.6	3 < 10	1% < 2.5%	0.5% < 1%
Very Attractive	Rising EE	Top Quintile	> 10%	0 < 1.1	0 < 3	<1%	< 0.5%

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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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