



ETF & Mutual Fund Rankings: Basic Materials Sector

The Basic Materials sector ranks ninth out of the 11 sectors as detailed in our [1Q18 Sector Ratings for ETFs and Mutual Funds](#) report. [Last quarter](#), the Basic Materials sector, previously named “Materials”, ranked sixth. It gets our Unattractive rating, which is based on an aggregation of ratings of 13 ETFs and 7 mutual funds in the Basic Materials sector as of January 10, 2018. See a recap of our [4Q17 Sector Ratings here](#).

Figures 1 and 2 show the best and worst rated ETFs and mutual funds in the sector. Not all Basic Materials sector ETFs and mutual funds are created the same. The number of holdings varies widely (from 23 to 262). This variation creates drastically different investment implications and, therefore, ratings.

Investors should not buy any Basic Materials 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.

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

Ticker	Allocation of ETF Holdings			Predictive Rating
	Attractive-or-better Stocks	Neutral Stocks	Unattractive-or-worse Stocks	
Best ETFs				
FXZ	6%	39%	52%	Neutral
Worst ETFs				
VAW	5%	28%	64%	Unattractive
XLB	5%	27%	70%	Unattractive
XME	2%	17%	70%	Unattractive
RTM	4%	28%	67%	Unattractive
IYM	5%	29%	64%	Unattractive

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

Sources: New Constructs, LLC and company filings

Exchange Traded Concepts Trust: REX Gold Hedged S&P 500 ETF (GHS), PowerShares S&P SmallCap Materials Portfolio (PSCM), and iShares Edge MSCI Multifactor Materials ETF (MATF) are excluded from Figure 1 because their total net assets (TNA) are below \$100 million and do 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

Ticker	Allocation of Mutual Fund Holdings			Predictive Rating
	Attractive-or-better Stocks	Neutral Stocks	Unattractive-or-worse Stocks	
Best Mutual Funds				
No mutual funds receive a Neutral-or-better rating.				
Worst Mutual Funds				
FMFEX	8%	16%	59%	Unattractive
FSDPX	8%	16%	59%	Unattractive
FMFCX	8%	16%	59%	Very Unattractive
FMFTX	8%	16%	59%	Very Unattractive
FMFAX	8%	16%	59%	Very Unattractive

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

Sources: New Constructs, LLC and company filings

First Trust Materials AlphaDEX Fund (FXZ) is the top-rated Basic Materials ETF. There are no mutual funds that receive a Neutral-or-better rating and meet our liquidity minimums. FXZ earns a Neutral rating.

iShares US Basic Materials ETF (IYM) is the worst rated Basic Materials ETF and Fidelity Advisor Materials Fund (FMFAX) is the worst rated Basic Materials mutual fund. IYM earns an Unattractive rating and FMFAX earns a Very Unattractive rating.

156 stocks of the 3000+ we cover are classified as Basic Materials 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.

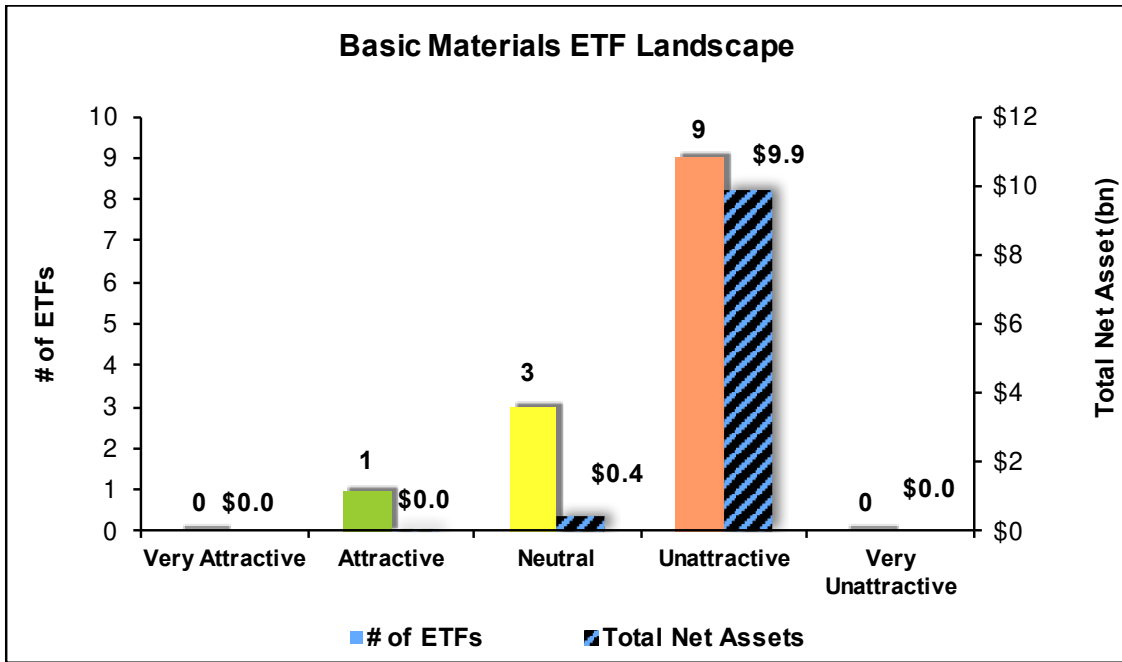
PERFORMANCE OF HOLDINGs = PERFORMANCE OF FUND

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.



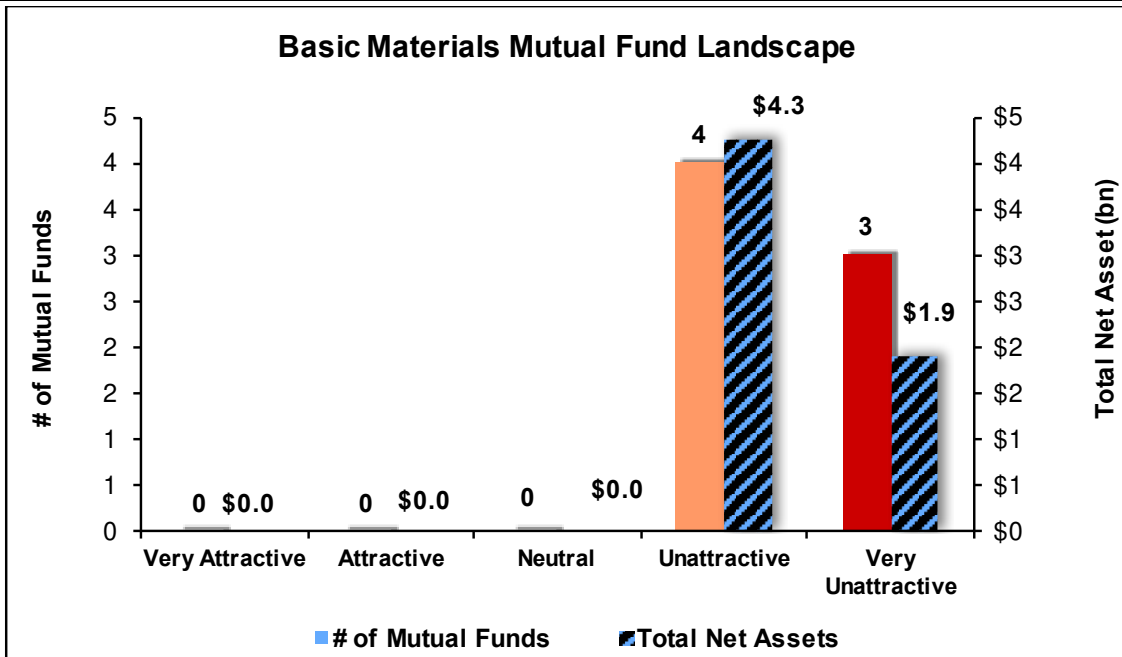
Figures 3 and 4 show the rating landscape of all Basic Materials ETFs and mutual funds.

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, Peter Apockotos, and Kyle Guske II 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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