



## How to Find the Best Sector Mutual Funds

Finding the best mutual funds 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 Mutual Fund Labels

There are at least 202 different Real Estate mutual funds and at least 692 mutual funds across eleven sectors. Do investors need 62+ choices on average per sector? How different can the mutual funds be?

Those 202 Real Estate mutual funds are very different. With anywhere from 22 to 186 holdings, many of these Real Estate mutual funds have drastically different portfolios, creating drastically different investment implications.

The same is true for the mutual funds in any other sector, as each offers a very different mix of good and bad stocks. Consumer Non-cyclicals ranks first for stock selection. Energy ranks last. Details on the [Best & Worst mutual funds in each sector are here.](#)

### How to Avoid Paralysis by Analysis

We think the large number of Real Estate (or any other) sector mutual funds 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 mutual funds. Analyzing mutual funds, done with the proper diligence, is far more difficult than analyzing stocks because it means analyzing all the stocks within each mutual fund. As stated above, that can be as many as 186 stocks, and sometimes even more, for one mutual fund.

Anyone focused on [fulfilling the fiduciary duty of care](#) recognizes that analyzing the holdings<sup>1</sup> of a mutual fund is critical to finding the best mutual fund. Figure 1 shows our top rated mutual fund for each sector.

**Figure 1: The Best Mutual Fund in Each Sector**

Ticker	Name	Sector	Assets (\$mm)
FSCHX	Fidelity Select Chemicals Portfolio	Basic Materials	\$1,694
FBMPX	Fidelity Select Multimedia Portfolio	Consumer Cyclical	\$481
VCSAX	Vanguard Consumer Staples Index Fund	Consumer Non-cyclicals	\$4,362
CGEYX	Columbia Global Energy & Natural Resources Fund	Energy	\$228
FSVLX	Fidelity Select Consumer Finance Portfolio	Financials	\$100
FSHCX	Fidelity Select Health Care Services Portfolio	Healthcare	\$779
FSLEX	Fidelity Select Environment and Alternative Energy	Industrials	\$165
VRTPX	Vanguard Real Estate II Index Fund	Real Estate	\$5,876
FSDCX	Fidelity Select Communications Equipment Portfolio	Technology	\$209
FWRLX	Fidelity Select Wireless Portfolio	Telecom Services	\$252
FUFRX	Franklin Utilities Fund	Utilities	\$5,786

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

Sources: New Constructs, LLC and company filings

Amongst the mutual funds in Figure 1, Vanguard Consumer Staples Index Fund (VCSAX) ranks first overall, Fidelity Select Consumer Finance Portfolio (FSVLX) ranks second, and Fidelity Select Health Care Services Portfolio (FSHCX) ranks third. Fidelity Select Chemicals Portfolio (FSCHX) ranks last.

<sup>1</sup> Ernst & Young's recent white paper "[Getting ROIC Right](#)" proves the superiority of our holdings research and analytics.



## How to Avoid “The Danger Within”

Why do you need to know the holdings of mutual funds before you buy?

You need to be sure you do not buy a fund that might blow up. Buying a fund 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 mutual fund'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

Analyzing each holding within funds is no small task. Our [Robo-Analyst technology](#)<sup>2</sup> 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.

### If Only Investors Could Find Funds Rated by Their Holdings

Our [mutual fund ratings](#) leverage our [stock coverage](#). We rate mutual funds based on the aggregated ratings of the stocks each mutual fund holds.

Vanguard Consumer Staples Index Fund (VCSAX) is not only the top-rated Consumer Non-cyclicals mutual fund but is also the overall top-ranked sector mutual fund out of the 692 sector mutual funds that we cover.

The worst mutual fund in Figure 1 is Fidelity Select Chemicals Portfolio (FSCHX) which gets an Unattractive rating. One would think mutual fund providers could do better for this sector.

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

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<sup>2</sup> Harvard Business School features the powerful impact of our research automation technology in the case [New Constructs: Disrupting Fundamental Analysis with Robo-Analysts](#).



## ***New Constructs® - Research to Fulfill the Fiduciary Duty of Care***

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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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