Sector Ratings for ETFs & Mutual Funds

At the beginning of the fourth quarter of 2018, the Consumer Non-cyclicals, Technology, and Healthcare sectors earn an Attractive-or-better rating. Our sector ratings are based on the normalized aggregation of our stock ratings for every stock in each sector. Our stock ratings are based on five criteria that assess a firm's business strength and valuation. See last quarter's Sector Ratings here.

Investors looking for sector funds that hold quality stocks should look no further than the Consumer Non-cyclicals and Technology 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[1] empowers our unique ETF and mutual fund rating methodology, which leverages our rigorous analysis of each fund's holdings.[2]

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. Our fund rating methodology is detailed here.

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
Real Estate	Very Unattractive
Energy	Unattractive
Basic Materials	Unattractive
Consumer Cyclicals	Neutral
Financials	Neutral
Telecom Services	Neutral
Utilities	Neutral
Industrials	Neutral
Healthcare	Attractive
Technology	Attractive
Consumer Non-cyclicals	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 ETF (FSTA) is the top-rated Consumer Non-cyclicals fund. It gets our Very Attractive rating by allocating over 68% of its value to Attractive-or-better-rated stocks.

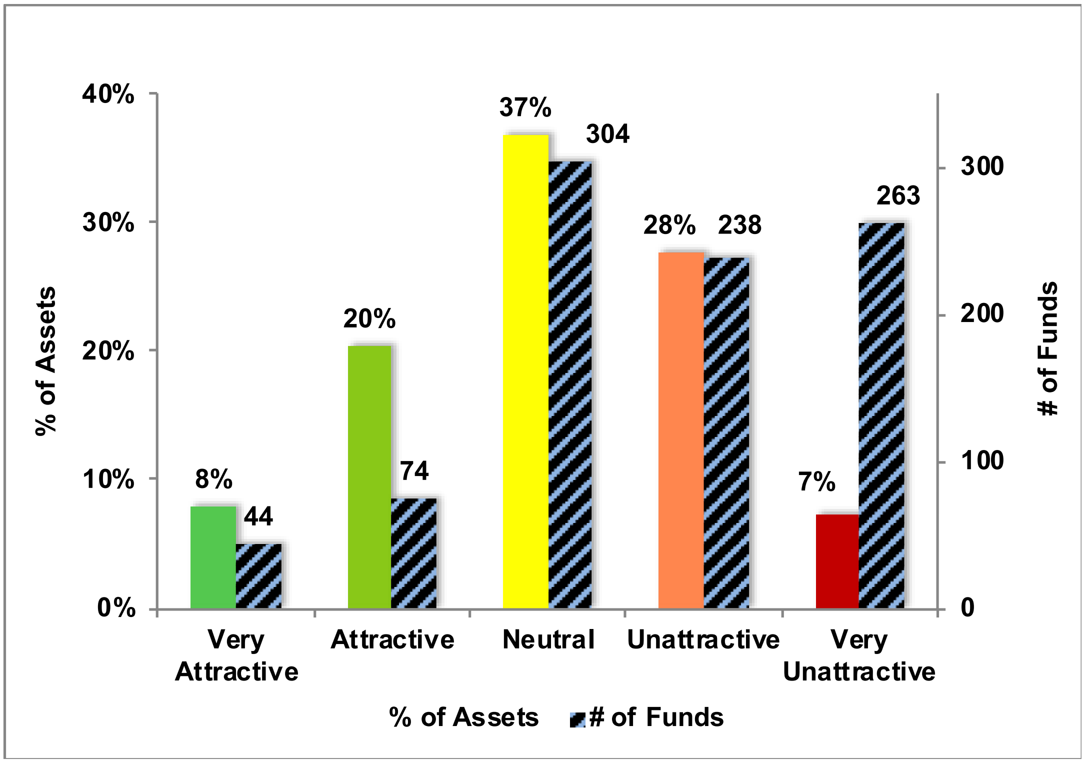
[1] Harvard Business School features the powerful impact of our research automation technology in the case New Constructs: Disrupting Fundamental Analysis with Robo-Analysts.

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

Dunham Real Estate Stock Fund (DAREX) is the worst Real Estate fund. It gets our Very Unattractive rating by allocating over 86% of its value to Unattractive-or-worse-rated stocks. Making matters worse, it charges investors annual costs of 4.03%.

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 three times that of Very Attractive funds.

Figure 3: Predictive Rating Distribution Stats

	Very Attractive	Attractive	Neutral	Unattractive	Very Unattractive
# of ETFs & Funds	44	74	304	238	263
% of ETFs & Funds	5%	8%	33%	26%	28%
% of TNA	8%	20%	37%	28%	7%
Avg TAC	0.64%	0.22%	0.51%	1.09%	1.95%

* Avg TAC = Weighted Average Total Annual Costs

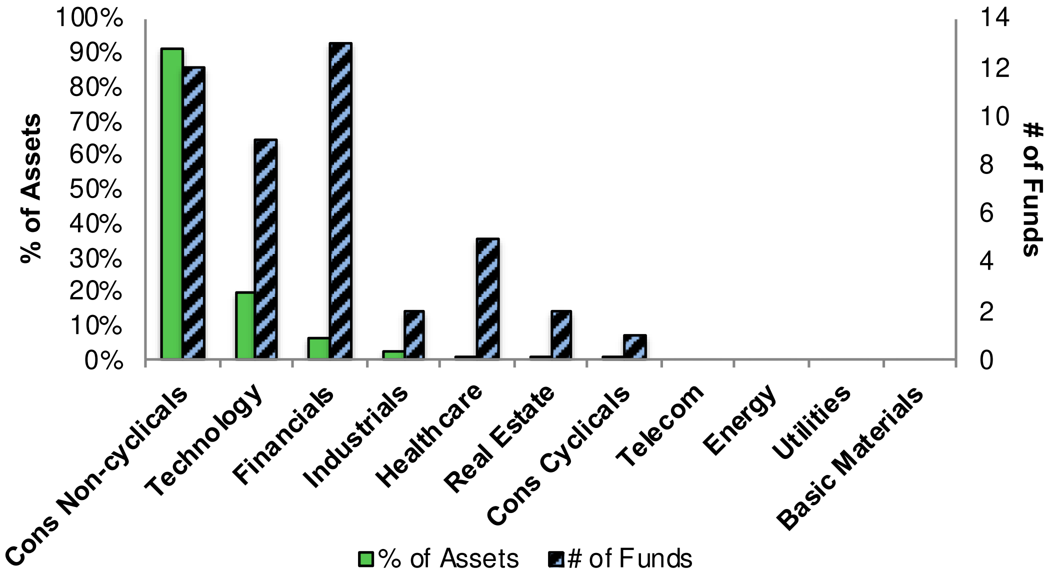
Source: New Constructs, LLC and company filings

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 Very Attractive-rated funds.

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.

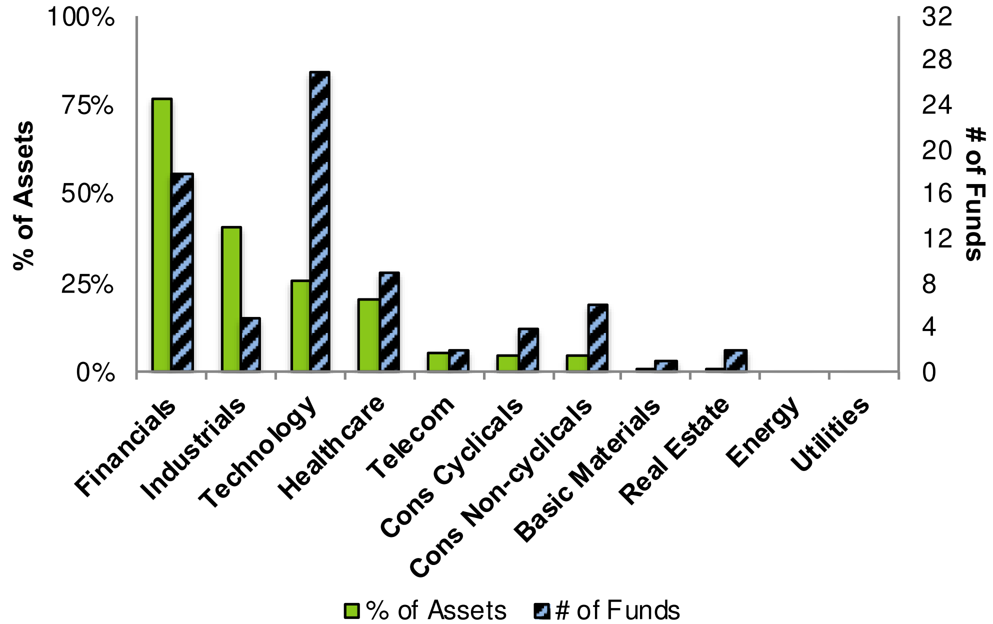
Figure 5: Very Attractive ETFs & Mutual Funds by Sector

Sector	% of Sector Assets	# of Very Attractive Funds	% of Very Attractive Funds in Sector
Cons Non-cyclicals	91%	12	41%
Technology	20%	9	5%
Financials	7%	13	17%
Industrials	2%	2	5%
Healthcare	1%	5	4%
Real Estate	1%	2	1%
Cons Cyclicals	0%	1	4%
Telecom	0%	0	0%
Energy	0%	0	0%
Utilities	0%	0	0%
Basic Materials	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 in each sector allocated to Attractive-rated funds.

Figure 6: Attractive ETFs & Mutual Funds by Sector



Source: New Constructs, LLC and company filings

Figure 7 presents the data charted in Figure 6.

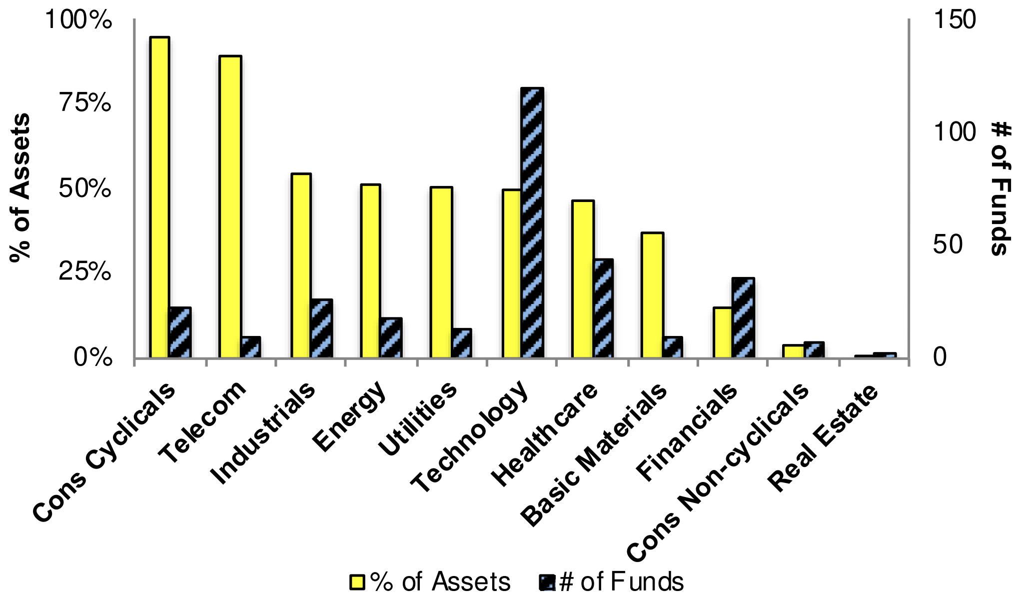
Figure 7: Attractive ETFs & Mutual Funds by Sector

Sector	% of Sector Assets	# of Attractive Funds	% of Attractive Funds in Sector
Financials	77%	18	23%
Industrials	41%	5	12%
Technology	26%	27	15%
Healthcare	21%	9	8%
Telecom	6%	2	12%
Cons Cyclicals	5%	4	14%
Cons Non-cyclicals	5%	6	21%
Basic Materials	1%	1	6%
Real Estate	1%	2	1%
Energy	0%	0	0%
Utilities	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 in each sector allocated to Neutral-rated funds.

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

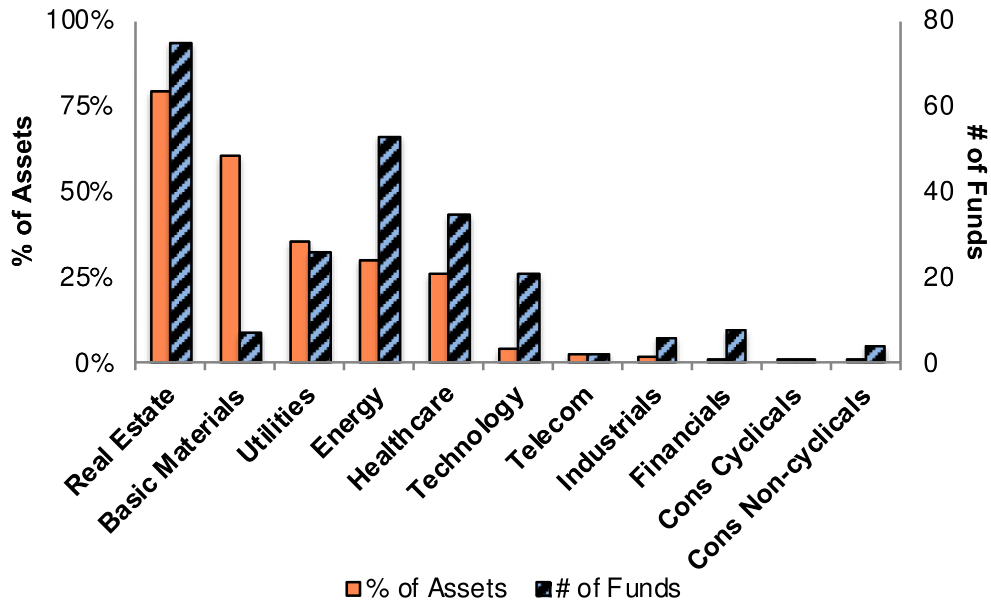
Sector	% of Sector Assets	# of Neutral Funds	% of Neutral Funds in Sector
Cons Cyclicals	95%	22	79%
Telecom	90%	9	53%
Industrials	55%	26	63%
Energy	51%	17	12%
Utilities	50%	13	28%
Technology	50%	120	65%
Healthcare	47%	44	38%
Basic Materials	37%	9	50%
Financials	15%	35	45%
Cons Non-cyclicals	4%	7	24%
Real Estate	0%	2	1%

Source: New Constructs, LLC and company filings

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

The landscape of sector ETFs and mutual funds is littered with Unattractive funds. Investors in Real Estate have put over 80% 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.

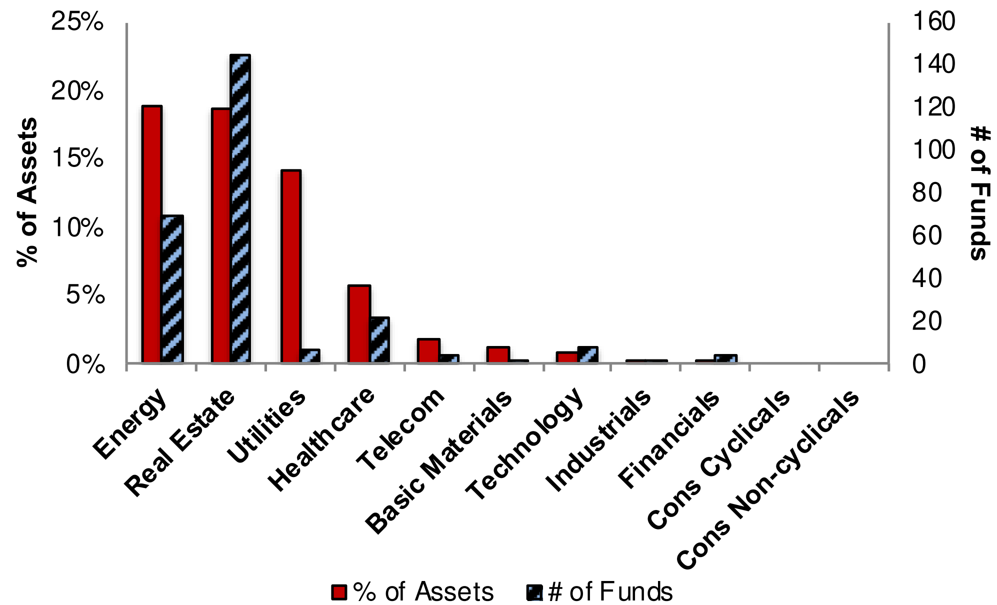
Figure 11: Unattractive ETFs & Mutual Funds by Sector

Sector	% of Sector Assets	# of Unattractive Funds	% of Unattractive Funds in Sector
Real Estate	80%	75	33%
Basic Materials	61%	7	39%
Utilities	36%	26	57%
Energy	30%	53	38%
Healthcare	26%	35	30%
Technology	4%	21	11%
Telecom	3%	2	12%
Industrials	2%	6	15%
Financials	1%	8	10%
Cons Cyclicals	1%	1	4%
Cons Non-cyclicals	0%	4	14%

Source: New Constructs, LLC and company filings

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

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	19%	70	50%
Real Estate	19%	145	64%
Utilities	14%	7	15%
Healthcare	6%	22	19%
Telecom	2%	4	24%
Basic Materials	1%	1	6%
Technology	1%	8	4%
Industrials	0%	2	5%
Financials	0%	4	5%
Cons Cyclicals	0%	0	0%
Cons Non-cyclicals	0%	0	0%

Source: New Constructs, LLC and company filings

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Disclosure: David Trainer, Kyle Guske II, and Sam McBride 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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