



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?

Learn more about the best fundamental research

Don't Trust Mutual Fund Labels

There are at least 173 different Real Estate mutual funds and at least 630 mutual funds across eleven sectors. Do investors need 57+ choices on average per sector? How different can the mutual funds be?

Those 173 Real Estate mutual funds are very different. With anywhere from 24 to 180 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 rank first for stock selection. Real Estate 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 diligence¹, 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 180 stocks, and sometimes even more, for one mutual fund.

Anyone focused on [fulfilling the fiduciary duty of care](#) recognizes that analyzing the holdings² of a mutual fund is critical to finding the best mutual fund. Only our research utilizes the superior data and earnings adjustments featured by the Harvard Business School and MIT Sloan paper, "[Core Earnings: New Data and Evidence](#)." 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)
FIJFX	Fidelity Advisor Materials Fund	Basic Materials	\$694
FGKMX	Fidelity Advisor Communication Services Fund	Consumer Cyclicals	\$710
VCSAX	Vanguard Consumer Staples Index Fund	Consumer Non-cyclicals	\$6,298
ICBMX	ICON Natural Resources and Infrastructure Fund	Energy	\$104
FSRBX	Fidelity Select Banking Portfolios	Financials	\$288
FSHCX	Fidelity Health Care Services Portfolio	Healthcare	\$1,024
PGWTX	Putnam Focused Equity Fund	Industrials	\$702
CGMRX	CGM Realty Fund	Real Estate	\$481
ROGSX	Red Oak Technology Select Fund	Technology	\$609
VTCAx	Vanguard Communication Services Index Fund	Telecom Services	\$2,659
EVUYY	Wells Fargo Utility & Telecommunications Fund	Utilities	\$424

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

Sources: New Constructs, LLC and company filings

¹ Compare our analytics on a mega cap company to Bloomberg and Capital IQ's (SPGI) analytics in the [detailed appendix of this paper](#).

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



Amongst the mutual funds in Figure 1, Vanguard Consumer Staples Index Fund (VCSAX) ranks first overall, Fidelity Select Banking Portfolio (FSRBX) ranks second, and CGM Realty Fund (CGMRX) ranks third. Fidelity Advisor Communication Services Fund (FGKMX) ranks last.

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](#) 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 630 sector mutual funds that we cover.

The worst mutual fund in Figure 1 is Fidelity Advisor Communication Services Fund (FGKMX), which gets a Neutral rating. One would think mutual fund providers could do better for this sector.

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

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Footnotes adjustments matter. We are the ONLY source.

We provide ratings, models, reports & screeners on U.S. 3,000 stocks, 700 ETFs and 7,000 mutual funds.

HBS & MIT Sloan research reveals that:

- **Markets are inefficiently assessing earnings because no one reads the footnotes.**
- **Corporate managers hide gains/losses in footnotes to manage earnings.**
- **Our technology brings the material footnotes data to market for the first time ever.**

Combining human expertise with NLP/ML/AI technologies ([featured by Harvard Business School](#)), we shine a light in the dark corners (e.g. footnotes) of hundreds of thousands of financial filings to unearth critical details.

The HBS & MIT Sloan paper, [Core Earnings: New Data and Evidence](#), shows how our superior data drives uniquely comprehensive and independent debt and equity research.

This [paper](#) compares our analytics on a mega cap company to other major providers. The Appendix details exactly how we stack up.

Learn more.

Quotes from HBS & MIT Sloan professors on our research:

Get better research:

“...the NC dataset provides a novel opportunity to study the properties of non-operating items disclosed in 10-Ks, and to examine the extent to which the market impounds their implications.” – page 20

Pick better stocks:

“Trading strategies that exploit cross-sectional differences in firms’ transitory earnings produce abnormal returns of 7-to-10% per year.” – Abstract

Avoid losses from using other firms’ data:

“...many of the income-statement-relevant quantitative disclosures collected by NC do not appear to be easily identifiable in Compustat...” – page 14

Build better models:

“Core Earnings [calculated using New Constructs’ novel dataset] provides predictive power for various measures of one-year-ahead performance...that is incremental to their current-period counterparts.” – page 4

Exploit market inefficiencies:

“These results ... suggest that the adjustments made by analysts and Compustat to better capture core earnings are incomplete. Moreover, the non-core items identified by NC produce a measure of core earnings that is incremental to alternative measures of operating performance in predicting an array of future income measures.” – page 26

Fulfill fiduciary duties:

“An appropriate measure of accounting performance for purposes of forecasting future performance requires detailed analysis of all quantitative performance disclosures detailed in the annual report, including those reported only in the footnotes and in the MD&A.” – page 33-34



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