



How to Find the Best Sector ETFs

Finding the best ETFs 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 ETF Labels

There are at least 60 different Technology ETFs and at least 244 ETFs across eleven sectors. Do investors need 22+ choices on average per sector? How different can the ETFs be?

Those 60 Technology ETFs are very different. With anywhere from 22 to 411 holdings, many of these Technology ETFs have drastically different portfolios, creating drastically different investment implications.

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

How to Avoid Paralysis by Analysis

We think the large number of Technology (or any other) sector ETFs 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 ETFs. Analyzing ETFs, done with the proper diligence¹, is far more difficult than analyzing stocks because it means analyzing all the stocks within each ETF. As stated above, there can be as many as 411 stocks or more for one ETF.

Anyone focused on [fulfilling the fiduciary duty of care](#) recognizes that analyzing the holdings² of an ETF is critical to finding the best ETF. The [best fundamental data](#) in the world, proven in [The Journal of Financial Economics](#), drives our research and analysis of ETF holdings. Figure 1 shows our top-rated ETF for each sector.

Figure 1: The Best ETF in Each Sector

Ticker	Name	Sector	Assets (\$mm)
XLB	State Street Materials Select Sector SPDR Fund	Basic Materials	\$5,189
ITB	iShares U.S. Home Construction ETF	Consumer Cyclical	\$1,994
XLP	State Street Consumer Staples Select Sector SPDR	Consumer Non-cyclical	\$13,309
TPYP	Tortoise North American Pipeline Fund	Energy	\$367
KBWP	Invesco KBW Property & Casualty Insurance ETF	Financials	\$267
IXJ	iShares Global Healthcare ETF	Healthcare	\$2,476
PKB	Invesco Dynamic Building & Construction ETF	Industrials	\$175
SRET	Global X SuperDividend REIT ETF	Real Estate	\$384
IXN	iShares Global Tech ETF	Technology	\$5,015
IYZ	iShares U.S. Telecommunications ETF	Telecom Services	\$422
FXU	First Trust Utilities AlphaDEX Fund	Utilities	\$194

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

Sources: New Constructs, LLC and company filings

¹ Three independent studies from respected institutions prove the superiority of our data, models, and ratings. Learn more [here](#).

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 ETFs in Figure 1, [State Street Consumer Staples Sector SPDR Fund](#) (XLP) ranks first overall, Invesco KBW Property & Casualty Insurance ETF (KBWP) ranks second, and iShares U.S. Home Construction ETF (ITB) ranks third. First Trust Utilities AlphaDEX Fund (FXU) ranks last.

How to Avoid “The Danger Within”

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

You need to be sure you do not buy an ETF that might blow up. Buying an ETF 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 ETF'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 [ETF ratings](#) leverage our [stock coverage](#). We rate ETFs based on the aggregated ratings of the stocks each ETF holds.

State Street Consumer Staples Sector SPDR Fund (XLP) is not only the top-rated Consumer Non-cyclicals ETF but is also the overall first-ranked sector ETF out of the 244 sector ETFs that we cover.

The worst ETF in Figure 1 is First Trust Utilities AlphaDEX Fund (FXU), which gets a Neutral rating. One would think ETF providers could do better for this sector.

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

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It's Official: We Offer the Best Fundamental Data in the World

Many firms claim their research is superior, but none of them can prove it with independent studies from highly-respected institutions as we can. Below, we present three different papers from both the public and private sectors that prove the superiority of our proprietary fundamental data, earnings models, investment ratings, and research for stocks, bonds, ETFs, and mutual funds.

Best Fundamental Data in the World

Forthcoming in [The Journal of Financial Economics](#), a top peer-reviewed journal, [Core Earnings: New Data & Evidence](#) proves the superiority of our [fundamental data](#), [earnings](#) models, and [research](#). More [details](#).

Key quotes from the paper:

- “[New Constructs’] *Total Adjustments* differs significantly from the items identified and excluded from Compustat’s adjusted earnings measures. For example... 50% to 70% of the variation in *Total Adjustments* is not explained by *IBSPI Adjustments*, *OIADP Adjustments*, or *OPE Adjustments* individually.” – pp. 14, 1st para.
- “A final source of differences [between New Constructs’ and S&P Global’s data] is due to data collection oversights...we identified cases where Compustat did not collect information relating to firms’ income that is useful in assessing core earnings.” – pp. 16, 2nd para.

Superior Models

A top accounting firm features the superiority of our [NOPAT](#), [Invested Capital](#), and [ROIC](#) research on four mega-cap companies in [“Getting ROIC right: how an accurate view of ROIC can drive improved shareholder value”](#).

Key quotes from the paper:

- “...an accurate calculation of ROIC requires more diligence than often occurs in some of the common, off-the-shelf ROIC calculations. Only by scouring the footnotes and the MD&A [the New Constructs method] can investors get an accurate calculation of ROIC.” – pp. 8, 5th para.
- “The majority of the difference...comes from New Constructs’ machine learning approach, which leverages technology to calculate ROIC by applying accounting adjustments that may be buried deeply in the footnotes across thousands of companies.” – pp. 4, 2nd para.

See the [Appendix](#) for direct comparison of our analysis of DOW’s 2015 results to Capital IQ and Bloomberg.

Superior Stock Ratings

Robo-Analysts’ stock ratings outperform those from human analysts as shown in this [paper](#) from Indiana’s Kelley School of Business. Bloomberg features the paper [here](#).

Key quotes from the paper:

- “the portfolios formed following the buy recommendations of Robo-Analysts earn abnormal returns that are statistically and economically significant.” – pp. 6, 3rd para.
- “Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts.” – pp. 20, 3rd para.

Our mission is to provide the best fundamental analysis of public and private businesses in the world and make it affordable for all investors, not just Wall Street insiders.

We believe every investor deserves to know the whole truth about the profitability and valuation of any company they consider for investment. More details on our cutting-edge technology and how we use it are [here](#).



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