



How to Find the Best Sector ETFs

With an ever-growing list of similar-sounding ETFs to choose from, finding the best is an increasingly difficult task. How can investors change the game to shift the odds in their favor?

[Learn more about the best fundamental research](#)

Don't Trust ETF Labels

There are at least 78 different Technology ETFs and at least 297 ETFs across eleven sectors. Do investors need 11+ choices on average per sector? How different can the ETFs be?

Those 78 Technology ETFs are very different from each other. With anywhere from 22 to 564 holdings, many of these Technology ETFs have drastically different portfolios with differing risk profiles and performance outlooks.

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

Avoiding Analysis Paralysis

We think the large number of sector ETFs hurts investors more than it helps. Manually conducting a deep analysis for every ETF is simply not a realistic option, exposing investors to insufficient analysis and missing profitable opportunities. Analyzing ETFs, 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 564 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. More [reliable](#) & [proprietary](#) fundamental data, proven in [The Journal of Financial Economics](#), drives our research and analysis of ETF holdings and provides investors with a [new source of alpha](#). Figure 1 shows our top-rated ETF for each sector.

Figure 1: The Best ETF in Each Sector

Ticker	Name	Sector	Assets (\$mm)
FXZ	First Trust Materials AlphaDEX Fund	Basic Materials	\$1,532
XHB	State Street SPDR S&P Homebuilders ETF	Consumer Cyclical	\$853
KXI	iShares Global Consumer Staples ETF	Consumer Non-cyclical	\$1,086
AMZA	Infracap MLP ETF	Energy	\$269
DFNL	Davis Select Financial ETF	Financials	\$165
IHE	iShares U.S. Pharmaceutical ETF	Healthcare	\$431
PKB	Invesco Dynamic Building & Construction ETF	Industrials	\$116
MORT	VanEck Mortgage REIT Income ETF	Real Estate	\$191
TDIV	First Trust NASDAQ Technology Dividend Index Fund	Technology	\$1,614
IXP	iShares Global Comm Services ETF	Telecom Services	\$294
FXU	First Trust Utilities AlphaDEX Fund	Utilities	\$364

* 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, First Trust Materials AlphaDEX Fund (FXZ) ranks first overall, State Street SPDR S&P Homebuilders ETF (XHB) ranks second, and Davis Select Financial ETF (DFNL) 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 – FEES = 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.

First Trust Materials AlphaDEX Fund (FXZ) is not only the top-rated Basic Materials ETF but is also the overall top-ranked sector ETF out of the 297 sector ETFs that we cover.

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

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Disclosure: David Trainer, Kyle Guske II, Matt Shuler, and Brian Pellegrini 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. Three different papers from both the public and private sectors show:

1. Legacy fundamental datasets suffer from significant inaccuracies, omissions and biases.
2. Only our “novel database” enables investors to overcome these flaws and apply [reliable](#) fundamental data in their research.
3. Our proprietary measures of [Core Earnings](#) and [Earnings Distortion](#) materially improve stock picking and forecasting of profits.

Best Fundamental Data in the World

Forthcoming in [The Journal of Financial Economics](#), a top peer-reviewed journal, [Core Earnings: New Data & Evidence](#) proves our Robo-Analyst technology overcomes material shortcomings in legacy firms’ data collection processes to provide superior [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 *S&P Global’s (SPGI) 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 ROIC, NOPAT and Invested Capital research to Capital IQ & Bloomberg’s in [Getting ROIC Right](#). See the [Appendix](#) for direct comparison details.

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 [as New Constructs does] 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.

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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