

Stock Market

Financial

Sector

The 11 Sectors of the Stock Market

The stock market is often divided into 11 major sectors representing key areas of the economy. Within each sector, there are a number of different publicly traded companies that share the same broad focus. Investors interested in gaining exposure to a specific area of the economy, or implementing a sector investing plan to include mutual funds, exchange-traded funds (ETFs) and individual sector stocks in the sector of their choice. Below is our rating of the eleven sectors based on our research of the top mutual funds and exchange traded funds in each individual sector.

Gain over 13 years
(2006-2019)

1. Technology	217%
2. Consumer Discretionary	164%
3. Healthcare	159%
4. Consumer Staples	141%
5. Industrials	138%
6. Materials	129%
7. Utilities	124%
8. Real Estate	109%
9. Telecommunications	94%
<u>10. Financial</u>	<u>80%</u>
11. Energy	75%

Financial Services Sector Explanation

What Is the Financial Services Sector?

Companies in the financial services industry are in the business of managing money. Globally, the financial services industry leads the world in terms of earnings and equity market capitalization. Large conglomerates dominate this sector, but it also includes a diverse range of smaller companies.

According to the Finance and Development department of the International Monetary Fund (IMF), a financial service is best described as the process by which a consumer or business acquires a financial good. For example, a payment system provider is providing a financial service when it is able to accept and transfer funds from a payer to a recipient. This includes accounts that are settled through credit and debit cards, checks and electronic funds transfers.

Consider a financial advisor. The advisor manages assets and offers advice on behalf of a client. The advisor does not directly provide investments or any other product. Instead, the advisor facilitates the movement of funds between savers and the issuers of securities and other instruments. This service is a temporary task rather than a tangible asset.

Financial goods, on the other hand, are not tasks; they are things. A mortgage loan may seem like a service, but it's actually a product that lasts beyond the initial provision. Stocks, bonds, loans, commodity assets, real estate and insurance policies are examples of financial goods.

KEY TAKEAWAYS

- Financial services are an increasingly influential sector of the modern economy.
- Financial services refers to a broad range of more specific activities such as banking, investing, and insurance.
- Financial services is limited to the activity of financial services firms and their professionals while financial products are the actual goods, accounts, or investments they provide
- **Banking Services**
- Commercial banking services are the foundation of the financial services group. The operations of a commercial bank include the safekeeping of deposits, issuance of credit and debit cards, and the lending of money. The banking industry is most concerned with direct saving and lending while the financial services sector incorporates investments, insurance, the redistribution of risk, and other financial activities. Banks earn revenue

primarily on the difference in the interest rates charged for credit accounts and the rates paid to depositors. Financial services like these primarily earn revenue through fees, commissions, and other methods like the spread on interest rates between loans and deposits.

- An investment bank typically only works with deal makers and high-net-worth clients, not the general public. These banks underwrite deals, secure access to capital markets, offer wealth management and tax advice, advise companies on mergers and acquisitions, and facilitate the buying and selling of stocks and bonds. Financial advisors and discount brokerages also occupy this niche.

• **Investment Services**

- Individuals may access financial markets like stocks and bonds through investments services. Brokers (either human or self-directed online) facilitate the buying and selling of securities and take a commission for their service. Financial advisors may charge an annual fee based on assets under management and direct several trades in the pursuit of constructing and managing a well-diversified portfolio. Robo-advisors are the latest incarnation of financial advice and portfolio management, with fully-automated algorithmic portfolio allocations and trade executions.
- Hedge funds, mutual funds and investment partnerships invest money in the financial markets and collect management fees in the process. These organizations require custody services for trading and servicing their portfolios, as well as legal, compliance and marketing advice. There are also software vendors that cater to the investment fund community by developing software applications for portfolio management, client reporting and other back-office services.
- Private equity funds, venture capital providers and angel investors supply investment capital to companies in exchange for ownership stakes or profit participation. Venture capital was especially important to tech firms in the 1990s. Much of what goes on behind the scenes in the making of big deals is attributed to this group.

• **Insurance Services**

- Insurance is another important subsector of the financial services industry. In the United States, an insurance agent differs from a broker. The former is a representative of the insurance carrier, while the latter represents the insured and shops around for insurance policies. This is also the realm of the underwriter, who assesses the risk of insuring clients and also advises investment bankers on loan risk. Finally, reinsurers are in the business of selling insurance to the insurers themselves to help protect them from catastrophic losses.
- Insurance services are available for protection against death or injury (e.g. life insurance, disability income insurance, health insurance), against

property loss or damage (e.g. homeowners insurance, car insurance), or against liability or lawsuit - among several other more targeted classifications.

- **Tax and Accounting Services**

- The vast financial services sector also includes accountants and tax filing services, currency exchange and wire transfer services, and credit card machine services and networks. It also includes debt resolution services and global payment providers such as Visa and Mastercard, as well as exchanges that facilitate stock, derivatives and commodity trades.
- An accountant utilizes education or experience in the realm of business, finance or accounting to examine the accuracy of financial statements. Accountants ensure all financial records and statements, such as the balance sheet, income and loss statement, cash-flow statement and tax return, are in line with federal laws and regulations and generally accepted accounting principles (GAAP). Accountants also compile the information needed to prepare entries to company accounts, such as the general ledger, and they document business financial transactions over time. This information is used to prepare weekly, monthly, quarterly or annual closing statements and cost accounting reports. Accountants must also resolve any discrepancies or irregularities they find in records, statements or documented transactions. They typically observe established accounting control procedures through an accounting system or software program.

Accountants are often assigned other finance-related tasks in addition to analyzing financial records and statements. Ancillary job duties include monitoring the efficiency of accounting control procedures or software programs to ensure they are up to date with federal and state regulations. Accountants are also tasked with making recommendations to various departments or C-suite staff regarding the efficient use of company resources and procedures. These recommendations are meant to provide solutions to potentially costly business financial concerns or problems. In some instances, accountants are also tasked with preparing and reviewing invoices for customers and vendors to assist with timely payment on outstanding balances. Reconciliation of payroll, verification of contracts and orders, construction of a company budget, and the development of financial models or projections may also be part of an accountant's regular responsibilities.

In addition to these duties, accountants prepare and file taxes for companies and individuals. They analyze all company assets, income earned and paid, or anticipated expenses and liabilities to reach a total tax obligation for the year. With both company and individual tax preparation and filing, accountants are expected to provide a detailed analysis of tax efficiency or inefficiency and make recommendations on how to reduce total tax liabilities in the future.

Financial Sector Summary

(Sector Ranking 10 out of 11)

After several months of research of the eleven sectors of the stock market here is a recap of our findings for the Financial Sector. Listed below are the suggested stocks, mutual funds and exchange traded funds that you might consider when investing in the Financial Sector. Please understand that all of our research is based on each fund's performance over their lifetime and with a long-term investment strategy in mind.

Mutual Funds:

Fidelity Select Brokerage & Investment Fund	FSLBX
Davis Financial Fund Class A	RFIGX
Fidelity Select Financial Services Portfolio	FIDSX
John Hancock Regional Bank Fund Class A	FRBAX
T. Rowe Price Financial Services Fund	PRISX

Exchange Traded Funds:

iShares US Financial ETF	IYF
Financial Select Sector SPDR Fund	XLF
Vanguard Financial Index Fund ETF Shares	VFH
SPDR S&P Regional Banking ETF	KRE

Top Stock Holdings of All Funds:

JP Morgan, WF Bank, B of A, Citigroup, S & P Global, American Express, BlackRock Inc., Visa A, Mastercard A, Berkshire Hathaway B, Charles Schwab

Financial Sector

Top Mutual Funds to Consider

Fidelity Select Brokerage & Investment Fund	(FSLBX)
Davis Financial Fund Class A	(RPFGX)
Fidelity Select Financial Services Portfolio	(FIDSX)
John Hancock Regional Bank Fund Class A	(FRBAX)
T. Rowe Price Financial Services Fund	(PRISX)

Fund	Incept.	Assets	Exp. Ratio	(Yearly Return's)				Since Inception
				1yr	5yr	10yr	15yr	
FSLBX	1985	392 M	0.77	22%	20%	10%	7%	11.28%
RPFGX	1991	815 M	0.18	1%	12%	9%	6%	11.16%
FIDSX	1981	535 M	1.12	8%	16%	9%	4%	11.23%
FRBAX	1992	1 B	1.07	7%	14%	11%	6%	10.89%
PRISX	1996	918 M	1.35	14%	18%	11%	7%	9.83%

Mutual Funds

(As of Feb. 16, 2021)

Financial Sector Funds

	Fidelity	DAVIS	Fidelity	John Hancock	T. Rowe Price
Fund	FSLBX	RPF6X	FIDSX	FRBAX	PRISX
Rating	4A	3★	3★	3★	4★
Assets	399M	767M	525M	1B	854M
Year	1985	1991	1981	1992	1976
Mgr. Tenure Since	24yr	74yr	24yr	14yr	74yr
Exp. Ratio	0.77	0.94	0.77	1.23	0.89
Yield %	1.09	1.26	1.96	2.05	1.37
Yrs. Up/Dn.	B 50 25/ W-49 10	B 46 20/ W-46 9	B 34 29/ W-50 10	B 39 21/ W-25 7	B 39 17/ W-40 7
% Yrs. Dn.	354r 28%	294r 31%	394r 25%	284r 25%	244r 29%
Price					
YTD	5.69	7.44	8.36	14.21	10.41
1yr.	22	1	8	7	14
3yr.	13	4	7	2	11
5yr.	20	12	16	14	18
10yr.	10	9	9	11	11
15yr.	7	6	4	6	7
Life Return	11.28%	11.16	11.23	10.89	9.83
10 Yr. Growth 10K	\$28,131	\$25,114	\$25,670	\$29,345	\$30,817
No. Holdings	34	29	67	100	86
Top 10 %	61%	65%	41%	30%	39%
Turnover %	9%	6%	61%	1%	15%
Top 3 Sectors %	Financial 100%	Fin 28% Comm 2%	Fin 25% Tech 2% Indust 3%	Financial 100%	Fin 94% R/E 3% Tech 3%

Financial Sector

Top Exchange Traded Funds to Consider

iShares US Financial ETF	(IYF)
Financial Select Sector SPDR Fund	(XLF)
Vanguard Financial Index Fund ETF Shares	(VFH)
SPDR S&P Regional Banking ETF	(KRE)

Fund	Incept.	Assets	Exp. Ratio	(Yearly Return's)				Since Inception
				1yr	5yr	10yr	15yr	
IYF	2000	1.6 B	0.42	0.33%	15%	11%	4%	5.27%
XLF	1998	30 B	0.13	3.8%	16%	10%	3%	5.35%
VFH	2004	8 B	0.10	3.8%	16%	10%	4%	4.82%
KRE	2005	3 B	0.42	13%	15%	11%	3%	4.02%

Four Exchange Traded Funds (As of Feb, 16, 2021)

Financial Sector Funds

Fund	iShares	Financial	Vanguard	SPDR	
	IYF	XLF	VFH	KRE	
Rating	4A	3A	4A	2A	
Assets	1.6B	30B	8B	3B	
Year	2000	1998	2004	2005	
Mgr. Tenure Since	N/A	N/A	N/A	N/A	
Exp. Ratio	1.7	0.13	0.10	0.41	
Yield %	1.76	2.06	2.25	2.65	
Yrs. Up/Dn.	B34 12/8 W=50	B35 14/8 W=55	B33 10/6 W=49	B47 8/6 W=22	
% Yrs. Dn.	2011 40%	2211 36%	1611 37%	1441 42%	
Price					
YTD	5.51	6.92	7.66	17.57	
1yr.	0.33	3.8	3.8	13	
3yr.	7	5	5	1.8	
5yr.	15	16	16	15	
10yr.	11	10	10	11	
15yr.	4	3	4	3	
Life Return	5.27	5.35	4.82	4.02	
10 Yr. Growth 10K	\$29,055	\$29,401	\$29,319	\$28,365	
No. Holdings	236	67	409	128	
Top 10 %	40%	54%	41%	36%	
Turnover %	6%	4%	5%	35%	
Top 3 Sectors %	Financial 80%	Financial 100%	Financial 99%	Financial 100%	
	R/E 20%		R/E 1%		