

*Stock Market*

*Utilities*

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



# Utilities Sector Explanation *# Funde in sector 20*

## What Is the Utilities Sector?

The utilities sector refers to a category of companies that provide basic amenities, such as water, sewage services, electricity, dams, and natural gas. Although utilities earn profits, they are part of the public service landscape and are therefore heavily regulated. Investors typically treat utilities as long-term holdings and use them to inject steady income in their portfolios.

## Utilities Sector Explained

Utilities typically offer investors stable and consistent dividends, coupled with less price volatility relative to the overall equity markets. Because of these facts, utilities tend to perform well during recessionary climates. Contrarily, utility stocks tend to fall out of favor with the market, during times of economic growth.

The many types of utilities available include large companies that offer multiple services such as electricity and natural gas. Other utility interest might specialize in just one type of service, such as water. Some utilities rely on clean and renewable energy sources like wind turbines and solar panels, to produce electricity. Investors may also purchase regional utilities or invest in exchange-traded funds (ETFs) containing baskets of utility stocks located throughout the U.S.

## Paradigm Shift

While electric utility companies used to be regionally monopolistic, broadly speaking, the industry is breaking down into the following four supplier segments:

- **Generators:** These operators create electrical power.
- **Energy Network Operators:** Grid operators, regional network operators and distribution network operators sell access to their networks to retail service providers.
- **Energy Traders and Marketers:** By buying and selling energy futures and other derivatives and creating complex "structured products," these companies usefully help utilities and power-hungry businesses secure a dependable supply of electricity at a stable, predictable price.
- **Energy Service Providers and Retailers:** In most U.S. states, consumers can now choose their own retail service providers.



## KEY TAKEAWAYS

- The utility sector is a category of company stocks that provide basic services including electricity, natural gas, and water.
- Utilities earn a profit but are a public service and, as a result, have substantial regulation.
- Typically, investors buy utilities as long-term holdings for their dividend income and stability
- The utility sector tends to do well as a defensive play against macroeconomic downturns.
- As the economy improves and interest rates rise, investors can find higher-yielding alternatives to utilities.
- **Debt Levels of the Utilities Sector**
- Utilities require a significant amount of expensive infrastructure and consequently carry large amounts of debt on their balance sheets. These debt loads make utilities hypersensitive to changes in the market interest rate. And because utilities are capital-intensive, they require a continuous inflow of funds to finance infrastructure upgrades and new asset purchases. The significant debt load also results in high utility debt-to-equity (D/E) ratios, which can impact companies' credit ratings, making it difficult to borrow funds, which ultimately increases their costs of operations.
- **Consumer Impact on Utilities Sector**
- Because many states let consumers move from one utility operator to another, consumers typically choose the least expensive local operator. Higher-cost producers are eventually eliminated from the market, unless they can cut their costs in time.
- Long-term power purchase agreements between companies and consumers also impact profits. When utility generation costs increase, companies must continue to honor the contract agreements and sell utilities at the current agreed-upon rate, which decreases their profits.
- **How Investors Trade Utilities**
- Because utility stocks pay reliable dividends, investors often favor them over lower-dividend paying equities. After the financial crisis of 2008, the Federal Reserve cut interest rates, in an effort to stimulate the economy. As a result, investors flocked to utilities, as safer investments. Simply put: utility companies are a viable defensive choice for investors during macroeconomic downturns.
- However, as the economy improves and interest rates rise, investors can find higher-yielding alternatives than utilities. As rates rise, so do the yields of U.S. Treasury bills. For example, if a utility pays a dividend yield of 3%, but increasing interest rates spike bond yields to 4%, the utility company would have to increase its dividend payout in order to match the rising



yields of Treasuries. Therefore, utilities do well when interest rates decrease because their dividends are greater than Treasury yields. However, as the economy improves, utilities tend to sell off as interest rates rise back to normal levels and their dividends become once again

- lower than Treasuries.
- **Pros and Cons of the Utilities Sector**
- Utilities are stable investments that provide a regular dividend to shareholders, making them a popular long-term buy-and-hold option. Dividends yields are usually higher than those paid by other stocks. During times of economic downturns with low interest rates, such stocks become attractive. Primarily because they exhibit lower volatility and provide a desirable source of predictable investment returns from the dividends they pay on their shares. Investors may invest in utility company shares, industry sector ETFs, and in utility bonds or other debt securities.

#### Pros

- The utility sector offers stable, long-term investments with a regular and attractive dividend.
- Utilities act as a haven investment during times of economic downturns.
- Utilities offer many options for investment including bonds, ETFs, and individual company stocks

#### Cons

- Intense regulatory oversight causes difficulty in raising customer utility prices to increase revenue.
- Expensive utility infrastructure requires continual upgrades and maintenance.
- During times of high market interest rates, utilities become less attractive and must increase their bond yields.

## Real-World Example of Utilities

Investors can buy into individual utility stocks or bonds, or they can invest in ETFs that comprise baskets of many utilities. For example, the Utilities Select Sector SPDR Fund (XLU) is one of the largest utility sector funds, with a whopping \$9 billion in assets under management. The ETF also is one of the most actively traded utility ETFs, with more than 10 million shares traded daily. The fund typically pays a dividend yield of around 3% with a low expense ratio of 0.13%.



# **Utilities Sector Summary**

(Sector Ranking 7 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 Utilities Sector. Listed below are the suggested stocks, mutual funds and exchange traded funds that you might consider when investing in the Utilities 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 Utilities Portfolio	FSUTX
PGIM Jennison Utility Fund Class B	PRUTX
Franklin Utilities Fund Class A-1	FKUTX
Vanguard Utilities Index Fund Admiral Shares	VUIAX
MFS Utilities Fund class A	MMUFX

## **Exchange Traded Funds:**

Invesco S & P Small-Cap Utilities & Communication Service	PSCU
Vanguard Utilities Index Funds	VPU
Utilities Select Sector SPDR Fund	XLB

## **Top Stock Holdings of All Funds:**

NextEra, Dominion. Southern Co., Duke Energy, Exelon Corp., First Energy, American Electric & Sempra Energy.

# Utilities Sector

## Mutual Funds to Consider

(As of Feb. 12, 2021)

Fidelity Select Utilities Portfolio	(FSUTX)
PGIM Jennison Utility Fund Class B	(PRUTX)
Franklin Utilities Fund Class A-1	(FKUTX)
Vanguard Utilities Index Fund Admiral Shares	(VUIAX)
MFS Utilities Fund Class A	(MMUFX)

Fund	Incept.	Assets	Exp. Ratio	(Yearly Return's)				Since Inception
				1yr	5yr	10yr	15yr	
FSUTX	1981	952 M	0.75	-4%	12%	11%	09%	11.05%
PRUTX	1981	3 B	1.78	-3%	12%	11%	08%	10.11%
FKUTX	1948	6 B	0.73	-1%	10%	10%	09%	9.75%
VUIAX	2004	6 B	0.10	-7%	10%	11%	09%	9.88%
MMUFX	1992	3 B	1.01	-1%	13%	09%	09%	10.75%



# Mutual Funds

As of Feb. 13, 2021

## Utilities Sector Funds

Fidelity

PIM

Franklin

Vanguard

MFS

Fund	FSUTX	PRUAX	FKUTX	VUIAX	MMUEX
Rating	4★	5★	4★	4★	3★
Assets	952m	3B	6B	6B	3B
Year	1981	1980	1948	2004	1992
Mgr. Tenure Since	14yrs	15yrs	22yrs	5yrs	2yrs
Exp. Ratio	0.75	0.84	0.73	0.10	1.01
Yield %	3.27	1.54	2.69	3.20	1.69
Yrs. Up/Dn.	B 30 32/1 W-36	B 29 25/5 W-47	B 27 54/18 W-26	B 27 13/3 W-28	B 33 23/5 W-38
% Yrs. Dn.	39yr 18%	30yr 25%	72yr 24%	16yr 18%	28yr 18%
Price	3/12 \$20	3/12 416	3/12 \$19	3/12 \$69	3/12 \$23
YTD	1.70 %	0.06 %	-1.87 %	0.16 %	-0.74 %
1yr.	-4	-3	-1	-7	-1
3yr.	13	13	11	12	11
5yr.	12	12	10	10	13
10yr.	11	11	11	10	11
15yr.	9	8	9	9	9
Life Return	11.05 %	10.11 %	9.75 %	9.88 %	10.75 %
10 Yr. Growth 10K	\$28,921	\$28,688	\$27,363	\$28,862	\$23,582
No. Holdings	28	30	44	61	96
Top 10 %	67 %	46 %	50 %	55 %	45 %
Turnover %	65 %	28 %	12 %	5 %	30 %
Top 3 Sectors %	Utilities 99 Tech 1	Utilities 85 Energy 5 Comm 5 R/E 5	Utilities 96 Energy 3 Comm 1	Utilities 99 Materials 1	Utilities 85 Comm 11 Energy 5



# Utilities Sector

## Exchange Traded Funds to Consider

(As of Feb. 12, 2021)

Invesco S & P Small-cap Utilities & Communication Services	(PSCU)
Vanguard Utilities Index Fund	(VPU)
Utilities Select Sector SPDR Fund	(XLB)

Fund	Incept.	Assets	Exp.	(Yearly Return's)				Since
			Ratio	1yr	5yr	10yr	15yr	Inception
PSCU	2010	21M	0.73	12%	11%	11%	-----	11.84%
VPU	2004	5 B	1.00	-7%	10%	11%	09%	9.75%
XLB	1998	11 B	0.13	-6%	10%	11%	08%	7.43%



## Exchange Traded Funds

As of Feb 13, 2021

## Utilities Sector Funds

Investco Vanguard SPDR			
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Fund	PSCU	VPY	XL4
Rating	2A	4A	4A
Assets	21m	5B	11B
Year	2010	2004	1998
Mgr. Tenure Since	N/A	N/A	N/A
Exp. Ratio	0.73	0.100	0.12
Yield %	1.20	3.12	3.69
Yrs. Up/Dn.	+25 -5 9/1	+26 -28 14/2	B+29 N-29 17/5
% Yrs. Dn.	10yr 10%	16yr 13%	22yr 23%
Price	2/12 \$62	2/12 \$138	2/12 \$63
YTD	14.70%	0.21%	-0.13%
1yr.	12	-7	-6
3yr.	10	12	12
5yr.	11	10	10
10yr.	11	11	11
15yr.	~	9	8
Life Return	11.84%	9.75%	7.432
10 Yr. Growth 10K	\$29,944	\$28,834	\$28,511
No. Holdings	25	66	29
Top 10 %	67%	55%	64%
Turnover %	64%	5%	3%
Top 3 Sectors %	Utilities 33 Comm 67	Util 99 Energy 1	Util 100%