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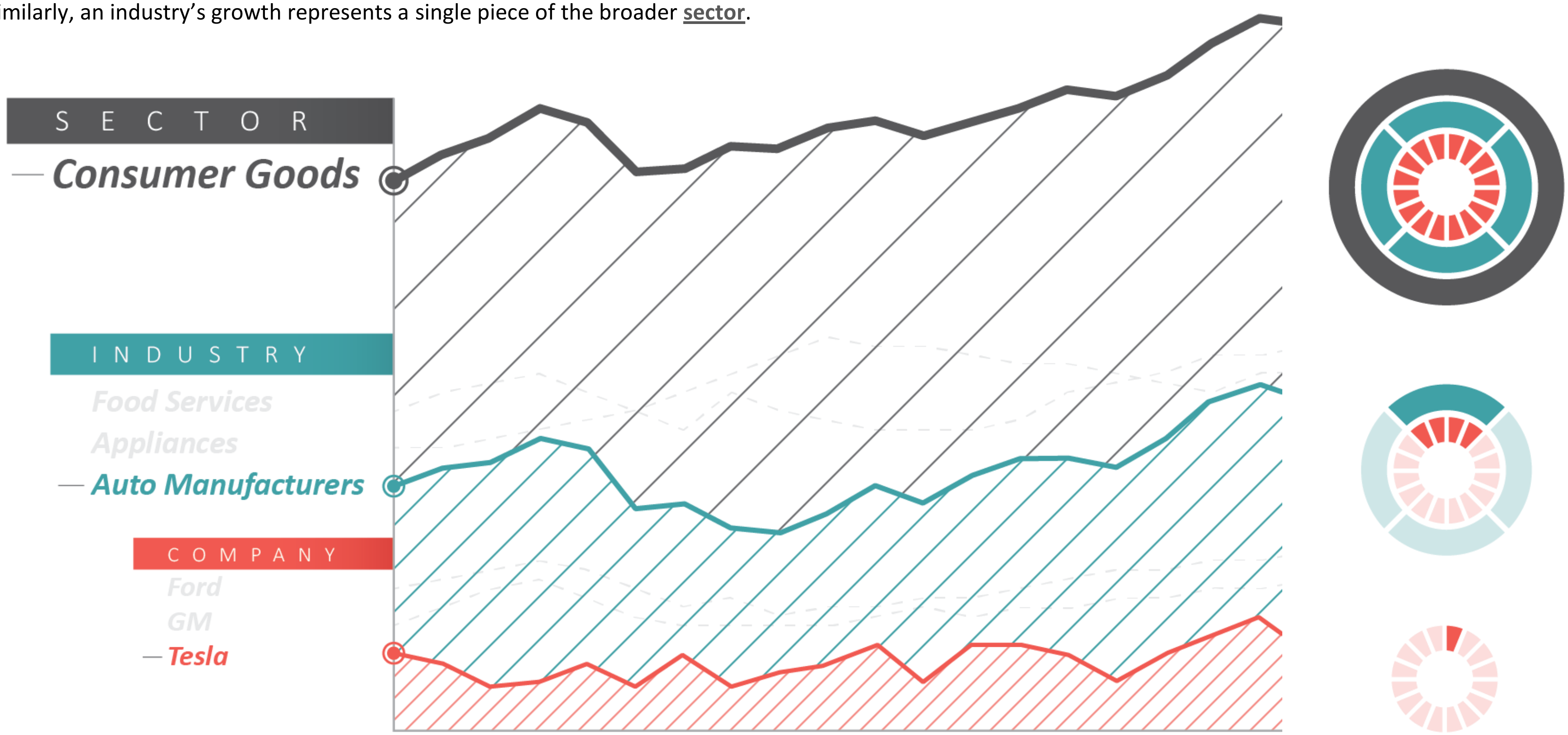
Sector Investing

"Sector investing" is the investment strategy of buying equities throughout an interconnected portion of a market, rather than a specific company or industry. A sector is a collection of industries—with each industry comprised of dozens of individual companies. A sector's industries are usually affected by similar factors and are likely to move at the same time. Sector investing is appealing to many people because it looks for the most generic trends in the market. It is not a zero-sum contest between a selected company and a competitor, rather it is an investment that a portion of the economy will receive increased attention overall. Though definitions vary, most industry professionals recognize 10 to 15 sectors to make up the majority of the total market.

Breaking it Down

This graph shows a very simplified breakdown of an example sector.

A car manufacturer is a company with its own stock.
The success of a company contributes to the overall health of its industry.
Similarly, an industry's growth represents a single piece of the broader sector.



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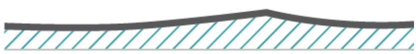
Sector Classifications

Defensive Sectors



A defensive sector is one that typically provides slow, regular growth. Their predictability makes them a common place of retreat in tumultuous markets. However, defensive sectors are never guaranteed to grow, and their profits are often beaten by other sectors.

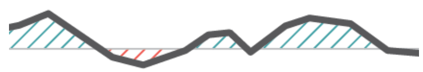
Health Care

Hospitals
Medical Research
Pharmaceuticals
Long-term Care Facilities

Utilities

Residential Gas
Electricity
Water

Sensitive Sectors



Sensitive sectors are partially linked to the movement of the overall market. They are best used to capture profits when the target sector is what is driving overall market growth. They have lower returns than cyclical sectors, but usually avoid steep decline.

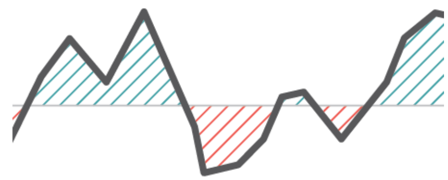
Industrials

Construction
Heavy Machinery
Textiles
Waste Management

Technology

Electronic Components
Multimedia
Data Storage
Web Servicing

Cyclical Sectors



These are the most volatile sectors on the market and show considerable expansion and contraction with the changes in the market. Many times, the growth of cyclical sectors is caused by an increase in public discretionary income that homes and businesses use for extra expansion or investment.

Consumer Goods

Auto Manufacturing
Food Service
Clothing
Entertainment

Finance

Credit Servicing
Financial Management
Investment Banking

Basic Materials

Mining
Synthetic Chemicals
Forestry
Metal Processing

How to Invest

In order to capture their general movements, individuals need to invest in scores of different companies spread across different industries.

To do this, investors can purchase shares in **sector mutual funds** or **sector exchange-traded funds (ETFs)**. These funds divide an individual's investment among different companies in the same sector, and aim to reflect that sector's overall growth.

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