

### Best & Worst ETFs and Mutual Funds: Small Cap Blend Style

The Small Cap Blend style ranks eleventh out of the twelve fund styles as detailed in my [Style Rankings for ETFs and Mutual Funds](#) report. It gets my Dangerous rating, which is based on aggregation of ratings of 27 ETFs and 702 mutual funds in the Small Cap Blend style as of July 30, 2014. Prior reports on the best & worst ETFs and mutual funds in every sector and style are [here](#).

Figures 1 and 2 show the five best and worst-rated ETFs and mutual funds in the style. Not all Small Cap Blend style ETFs and mutual funds are created the same. The number of holdings varies widely (from 22 to 2522). This variation creates drastically different investment implications and, therefore, ratings. The best ETFs and mutual funds allocate more value to Attractive-or-better-rated stocks than the worst, which allocate too much value to Neutral-or-worse-rated stocks.

To [identify the best](#) and [avoid the worst](#) ETFs and mutual funds within the Small Cap Blend sector, investors need a [predictive rating](#) based on (1) the [stocks ratings](#) of the holdings, (2) the [all-in expenses](#) of each ETF and mutual fund, and (3) the fund's rank compared to all other ETFs and mutual funds. As a result, only the cheapest funds with the best holdings receive Attractive or better ratings. Investors need not rely on backward-looking ratings. My fund rating methodology is detailed [here](#).

Investors seeking exposure to the Small Cap Blend style should buy one of the Attractive-or-better rated ETFs or mutual funds from Figures 1 and 2.

Get my ratings on all ETFs and mutual funds in this style by searching for Small Cap Blend on my [mutual fund and ETF screener](#).

**Figure 1: ETFs with the Best & Worst Ratings – Top 5**

	Allocation of ETF Holdings			
Ticker	Attractive-or-better Stocks	Neutral Stocks	Dangerous-or-worse Stocks	Predictive Rating
Best ETFs				
EES	12%	27%	56%	Neutral
IJR	5%	26%	67%	Neutral
VIOO	5%	26%	68%	Neutral
SLY	5%	26%	68%	Neutral
FYX	9%	23%	68%	Neutral
Worst ETFs				
TWOK	5%	21%	64%	Dangerous
VTWO	5%	21%	64%	Dangerous
IWC	5%	13%	55%	Dangerous
URTY	5%	21%	64%	Dangerous
UWM	5%	21%	64%	Dangerous

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

Sources: New Constructs, LLC and company filings

[Five ETFs](#) are excluded from Figure 1 because their total net assets (TNA) are below \$100 million and do not meet our liquidity minimums.

**Figure 2: Mutual Funds with the Best & Worst Ratings – Top 5**

Allocation of Mutual Fund Holdings				
Ticker	Attractive-or-better Stocks	Neutral Stocks	Dangerous-or-worse Stocks	Predictive Rating
Best Mutual Funds				
PCOEX	26%	37%	34%	Attractive
POPDX	26%	37%	34%	Attractive
PXQSX	12%	50%	32%	Attractive
PYCOX	26%	37%	34%	Attractive
VVPSX	27%	33%	23%	Attractive
Worst Mutual Funds				
MMEAX	4%	16%	59%	Very Dangerous
TFSSX	7%	22%	57%	Very Dangerous
NESGX	0%	2%	57%	Very Dangerous
SLPIX	3%	12%	42%	Very Dangerous
SLPSX	3%	12%	42%	Very Dangerous

\* Best mutual funds exclude funds with TNAs less than \$100 million for inadequate liquidity.

Sources: New Constructs, LLC and company filings

Walden Mid Cap Fund (WAMFX) and Forum Funds: Golden Small Cap Core Fund (GLDSX) are excluded from Figure 2 because their total net assets (TNA) are below \$100 million and do not meet our liquidity minimums.

WisdomTree Small Cap Earnings Fund ETF (EES) is my top-rated Small Cap Blend ETF and Capital Opportunities Fund (PCOEX) is my top-rated Small Cap Blend mutual fund. EES earns my Neutral rating and PCOEX earns my Attractive rating.

ProShares Ultra Russell2000 ETF (UWM) is my worst-rated Small Cap Blend ETF and Small-Cap ProFund (SLPSX) is my worst-rated Small Cap Blend mutual fund. UWM earns my Dangerous rating and SLPSX earns my Very Dangerous rating.

Figure 3 shows that 248 out of the 2618 stocks (over 8% of the market value) in Small Cap Blend ETFs and mutual funds get an Attractive-or-better rating. However, only 1 out 27 Small Cap Blend ETFs (less than 1% of total net assets) and 10 out of 702 Small Cap Blend mutual funds (less than 1% of total net assets) get an Attractive-or-better rating.

The takeaways are: mutual fund managers allocate too much capital to low-quality stocks and Small Cap Blend ETFs hold poor quality stocks.

**Figure 3: Small Cap Blend Style Landscape For ETFs, Mutual Funds & Stocks**

	Very Attractive	Attractive	Neutral	Dangerous	Very Dangerous
# of Stocks	67	181	630	1349	391
% of Style	2%	6%	26%	50%	16%
# of ETFs	0	1	11	15	0
% of ETFs	0%	4%	41%	56%	0%
% of TNA	0%	0%	28%	72%	0%
# of MFs	1	9	231	324	137
% of MFs	0%	1%	33%	46%	20%
% of TNA	0%	1%	34%	55%	10%

Sources: New Constructs, LLC and company filings

As detailed in [“Cheap Funds Dupe Investors”](#), the fund industry offers many cheap funds but very few funds with high-quality stocks, or with what I call good [portfolio management](#).

Investors need to tread carefully when considering Small Cap Blend ETFs and mutual funds, as only 1 ETF and 10 mutual funds in the Small Cap Blend style allocate enough value to Attractive-or-better-rated stocks to earn an Attractive rating.

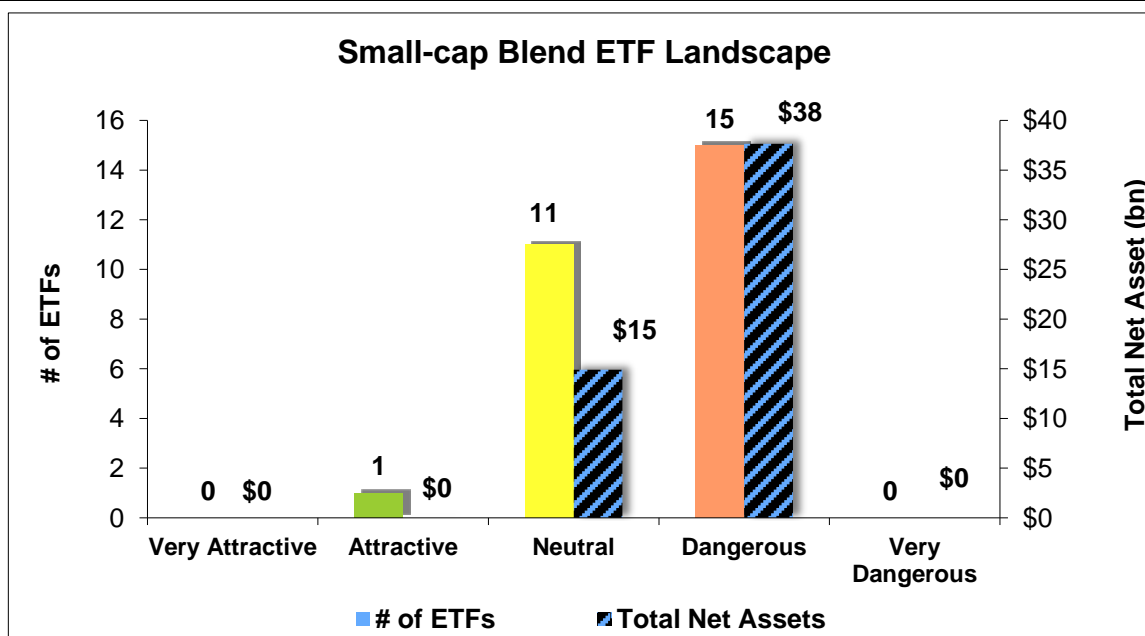
Assurant, Inc. (AIZ) is one of my favorite stocks held by Small Cap Blend ETFs and mutual funds and earns my Very Attractive rating. Over the past five years, AIZ has grown after-tax profits ([NOPAT](#)) by 5% compounded annually. The company has a return on invested capital ([ROIC](#)) of 11% and has earned positive [economic earnings](#) every year since it went public in 2004. Despite its consistent profit growth, AIZ remains undervalued. At its current price of ~\$65/share, AIZ has a price to economic book value ([PEBV](#)) ratio of 0.8. This ratio implies that the market expects AIZ’s NOPAT to permanently decline by 20% from its current level. This kind of decline seems unlikely when considering AIZ’s strong history of profitability, and AIZ should surpass these expectations.

The Marcus Corp (MCS) is one of my least favorite stocks held by Small Cap Blend ETFs and mutual funds and earns my Dangerous rating. Since 2004, MCS’s [NOPAT](#) has declined by 1% compounded annually. The company currently earns an [ROIC](#) of 4%, which places it in the bottom quintile of all companies I cover. MCS has also earned negative [economic earnings](#) in every year of my model, which goes back to 1998. Despite its declining NOPAT and destruction of shareholder value, MCS’s stock is up over 35% in the past year. To justify its current price of ~\$18/share, MCS must grow NOPAT by 10% compounded annually for the next 35 years. This expectation is lofty to say the least, especially given that MCS has failed to grow NOPAT at all for nearly a decade. Investors should stay away from MCS.

Figures 4 and 5 show the rating landscape of all Small Cap Blend ETFs and mutual funds.

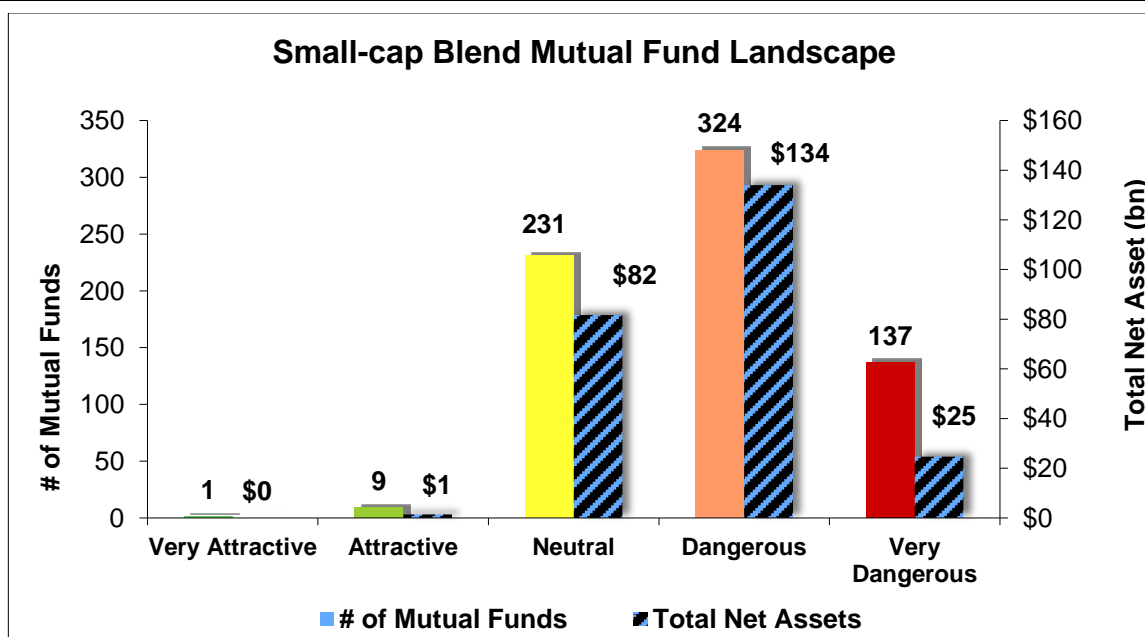
My [Style Rankings for ETFs and Mutual Funds](#) report ranks all styles and highlights those that offer the best investments.

**Figure 4: Separating the Best ETFs From the Worst Funds**



Sources: New Constructs, LLC and company filings

**Figure 5: Separating the Best Mutual Funds From the Worst Funds**



Sources: New Constructs, LLC and company filings

Review my [full list](#) of ratings and rankings along with reports on all 27 ETFs and 702 mutual funds in the Small Cap Blend style.

*Kyle Guske II contributed to this report.*

*Disclosure: David Trainer and Kyle Guske II receive no compensation to write about any specific stock, sector, style or theme.*

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