

New Constructs Revises Mutual Fund, ETF Rankings

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Source: [Inside Market Data](#) | 16 May 2014

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David Trainer, New Constructs

New Constructs, a Nashville, Tenn.-based provider of independent research and stock recommendations based on analysis of footnotes in financial statements, has revamped the way it rates mutual funds and exchange-traded funds to deliver more value to traders, investors and investment advisors.

To make it clearer for subscribers which funds represent attractive or risky investments, imposed a stricter set of tiers on Friday, May 9, which chief executive David Trainer says makes it easier to identify the best and worst funds for any given sector or style.

Now, the top 10 percent of funds are automatically placed in a segment deemed "very attractive." The next 20 percent are deemed "attractive," with the middle 40 percent deemed "neutral," and the next 20 percent and bottom 10 percent deemed "dangerous" and "very dangerous," respectively.

"Nothing about the underlying methodology has changed. We still evaluate mutual funds in the same way: we look at the quality of the fund's holdings, and the aggregate ratings of its stocks. But we found that 80 percent or more of our mutual fund ratings were coming up as neutral since there is only a limited number of stocks that get the best or worst rating," Trainer says, adding that as investors become either self-directed or turn to investment advisors rather than simply investing in mutual funds, these advisors are showing an increased appetite for tools to differentiate themselves, including the ability to monitor the impact of footnotes.

"You can't go to a client and say 'There aren't any funds with a good rating.' So there was a requirement for a more granular rating approach—it's not about moving the goalposts, but rather about creating appropriate goalposts that will work for groups of stocks rather than individual stocks," Trainer says.

Feedback so far indicates that clients immediately found the new tiers more useful, Trainer says. "It has been on our to-do list for a while. It took a couple of weeks to do, and we were able to get some client feedback as well," he adds.

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