



## How to Avoid the Worst Style Mutual Funds

Why are there so many mutual funds? The answer is: because mutual fund providers are making lots of money selling them. The number of mutual funds has little to do with serving your best interests. Below are three red flags you can use to avoid the worst mutual funds:

### 1. Inadequate Liquidity

This is the easiest issue to avoid, and my advice is simple: Avoid all mutual funds with less than \$100 million in assets. Low levels of liquidity can lead to a discrepancy between the price of the mutual fund and the underlying value of the securities it holds. In addition, low asset levels tend to mean lower volume in the mutual fund and large bid-ask spreads.

### 2. High Fees

Mutual funds should be cheap, but not all of them are. The first step here is to know what is cheap and expensive.

To ensure you are paying at or below average fees, invest only in mutual funds with total annual costs below 2.05%, which is the average total annual cost of the 7221 U.S. equity mutual funds I cover.

Figure 1 shows the most and least expensive style mutual funds in the U.S. equity universe based on [total annual costs](#). Rydex provides two of the most expensive mutual funds while Fidelity mutual funds are among the cheapest.

**Figure 1: 5 Least and Most-Expensive Style Mutual Funds**

| Ticker                 | Name                                      | Style            | Total Annual Cost | Overall Rating |
|------------------------|---|------------------|-------------------|----------------|
| <b>Most Expensive</b>  |   |                  |                   |                |
| AMREX                  | American Growth Fund Series Two           | All Cap Blend    | 9.41%             | 2 Stars        |
| EMCAX                  | Mutual Fund Series Empirical 2500 Fund    | Small Cap Blend  | 8.72%             | 2 Stars        |
| RYRUX                  | Rydex Dynamic Funds: Russell 2000 2x      | All Cap Blend    | 8.60%             | 1 Star         |
| RYLDX                  | Rydex Dow 2x Strategy Fund                | All Cap Blend    | 8.54%             | 2 Stars        |
| NYSAX                  | Nysa Trust Fund                           | Small Cap Growth | 8.18%             | 1 Star         |
| <b>Least Expensive</b> |   |                  |                   |                |
| FXAIX                  | Fidelity Spartan 500 Index Fund           | Large Cap Blend  | 0.03%             | 5 Stars        |
| VIIIX                  | Vanguard Institutional Index Fund         | Large Cap Blend  | 0.03%             | 5 Stars        |
| VITPX                  | Vanguard Institutional Total Stock Market | All Cap Blend    | 0.04%             | 5 Stars        |
| FFSMX                  | Fidelity Spartan Total Market Index Fund  | All Cap Blend    | 0.04%             | 5 Stars        |
| FSKAX                  | Fidelity Spartan Total Market Index Fund  | All Cap Blend    | 0.04%             | 5 Stars        |

Sources: New Constructs, LLC and company filings

However, investors need not pay high fees for good holdings. Vanguard Fenway Equity Income Fund (VEIRX) is my second rated style mutual fund and earns my Very Attractive (5-star) rating. It also has low total annual costs of only 0.30%.

### 3. Poor Holdings

This step is by far the hardest, but it is also the most important because a mutual fund's performance is determined more by its holdings than its costs. Figure 2 shows the mutual funds within each style with the worst holdings or [portfolio management ratings](#).

Figure 2: Style Mutual Funds with the Worst Holdings

| Ticker | Name  | Style            | Portfolio Management Rating | Overall Rating |
|--------|---|------------------|-----------------------------|----------------|
| ARVIX  | Aston River Road Independent Value Fund         | Small Cap Value  | Very Dangerous              | 1 Star         |
| SWMSX  | Schwab Laudus Small Cap MarketMasters Fund      | Small Cap Growth | Very Dangerous              | 1 Star         |
| MOFQX  | Marketocracy Masters 100 Fund                   | Small Cap Blend  | Very Dangerous              | 1 Star         |
| MYIMX  | Victory Integrity Mid Cap Value Fund            | Mid Cap Value    | Dangerous                   | 2 Stars        |
| EFCIX  | Emerald Insights Fund                           | Mid Cap Growth   | Dangerous                   | 1 Star         |
| HDPCX  | Hodges Pure Contrarian Fund                     | Mid Cap Blend    | Dangerous                   | 1 Star         |
| LHVIX  | Linde Hansen Contrarian Value Fund              | All Cap Value    | Dangerous                   | 2 Stars        |
| DBEGX  | DoubleLine Equities Growth Fund                 | All Cap Growth   | Dangerous                   | 1 Star         |
| SIAIX  | Snow Capital Inflation Advantaged Equities Fund | Large Cap Growth | Dangerous                   | 2 Stars        |
| NAAIX  | Nationwide Portfolio Completion Fund            | All Cap Blend    | Very Dangerous              | 1 Star         |
| AIO PX | Cavanal Hill Opportunistic Fund                 | Large Cap Blend  | Dangerous                   | 2 Stars        |
| TILD X | Centaur Total Return Fund                       | Large Cap Value  | Dangerous                   | 1 Star         |

Sources: New Constructs, LLC and company filings

No one provider appears more often than any other providers in Figure 2, which would mean that they offer the most mutual funds with the worst holdings.

My [overall ratings on mutual funds](#) are based primarily on my [stock ratings](#) of their holdings. New Constructs covers over 3000 stocks and is known for the due diligence done on each stock we cover.

### The Danger Within

Buying a mutual fund without analyzing its holdings is like buying a stock without analyzing its business and finances. Put another way, research on mutual fund holdings is necessary due diligence because a mutual fund's performance is only as good as its holdings' performance.

PERFORMANCE OF MUTUAL FUND'S HOLDINGS = PERFORMANCE OF MUTUAL FUND

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



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1. Based on the complete set of financial information available.
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3. A more accurate representation of the true underlying cash flows of the business.

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