Investment Style Rankings For ETFs and Mutual Funds

At the beginning of the second quarter of 2015, only the Large Cap Value and Large Cap Blend styles earn our Attractive rating. Our style ratings are based on the aggregation of our fund ratings for every ETF and mutual fund in each style.

Investors looking for style funds that hold quality stocks should look no further than the Large Cap Value and Large Cap Blend styles. These styles house the most Attractive-or-better rated funds. Figures 6 and 7 provide details. The primary driver behind an Attractive fund rating is good portfolio management, or good stock picking, with low total annual costs.

Note that the Attractive-or-better overall ratings do not always correlate with Attractive-or-better total annual costs. This fact underscores that (1) cheap funds can dupe investors and (2) investors should invest only in funds with good stocks and low fees.

See Figures 4 through 13 for a detailed breakdown of ratings distributions by investment style.

Figure 1: Ratings For All Investment Styles

Style	Overall Rating
Small Cap Blend	Dangerous
Small Cap Value	Dangerous
Small Cap Growth	Dangerous
Mid Cap Blend	Dangerous
Mid Cap Growth	Dangerous
Mid Cap Value	Neutral
All Cap Value	Neutral
All Cap Growth	Neutral
Large Cap Growth	Neutral
All Cap Blend	Neutral
Large Cap Blend	Attractive
Large Cap Value	Attractive

Source: New Constructs, LLC and company filings

To earn an Attractive-or-better Predictive Rating, an ETF or mutual fund must have high-quality holdings and low costs. 2151 style ETFs and mutual funds meet these requirements, which is 30% of all style ETFs and mutual funds.

Catalyst Lyons Tactical Allocation Fund (CLTIX) is our top All Cap Blend Mutual Fund. It gets our Very Attractive rating by allocating over 53% of its value to Attractive-or-better-rated stocks.

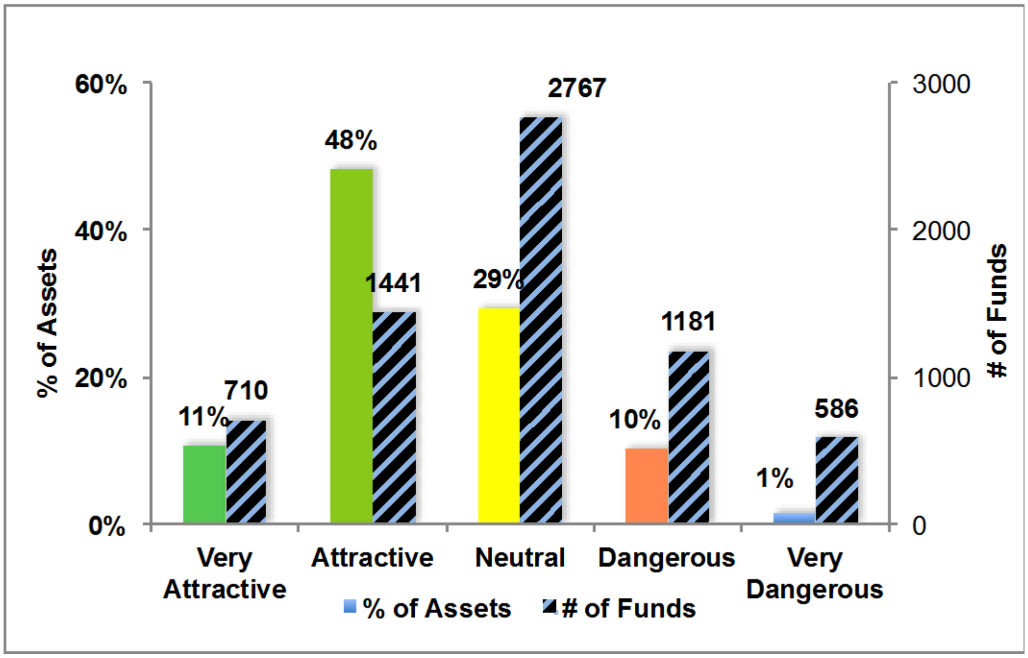
Home Depot (HD) is one of our favorite stocks held by CLTIX. Home Depot has achieved outstanding financial results since the housing market meltdown of 2008. Since 2009, net operating profit after tax (NOPAT) has grown by 11% compounded annually. Return on invested capital (ROIC) over this period has averaged 15% and has grown every year since 2010 to a top quintile 19% in 2015. Free cash flow performance has been just as admirable. Since 2008, the company has generated a cumulative $40 billion in free cash flow, and the company generated over $7 billion in free cash flow in 2015 alone. Due to Home Depot having a consistent and reliable track record of creating shareholder value and wealth, the stock is priced with a deserved premium. However, paying more for quality businesses is preferred over paying less for poor companies. That being said, there is still upside to be had in Home Depot. If Home Depot can grow NOPAT by 10% compounded annually for the next 10 years the stock is worth $130/share today – a 15% upside.

Chartwell Small Cap Fund (CWSVX) is our worst Small Cap Blend Mutual Fund. It gets our Very Dangerous rating by allocating over 65% of its value to Dangerous-or-worse-rated stocks. Making matters worse, it also charges investors total annual costs of 5.22%.

Covenant Transportation Group (CVTI) is one of our least favorite stocks held by small cap funds. Since 2004, Covenant has generated very low returns on capital — in fact, over the last decade, Covenant's ROIC has never exceeded 5%. This fact places Covenant in the bottom quintile of over 3000 companies we cover. In addition the company has generated negative economic earnings every single year since 2004. Effectively, for the past 10 years the company has been destroying shareholder value, as the costs of its capital is higher than its returns. Meanwhile, CVTI's stock price has more than tripled since 2013. However, the operating performance of the company does not reflect this rapid price appreciation. In order to justify its current price of $27/share, Covenant would need to grow NOPAT at 9% compounded annually for the next 14 years. This appears very optimistic given that the company has grown NOPAT by less than 1% compounded annually since 1998. In this case, the valuation of the stock leaves ample downside risk and very little upside due to ongoing shareholder value destruction.

Figure 2 shows the distribution of our Predictive Ratings for all investment style ETFs and mutual funds.

Figure 2: Distribution of ETFs & Mutual Funds (Assets and Count) by Predictive Rating



Source: New Constructs, LLC and company filings

Figure 3 offers additional details on the quality of the investment style funds. Note that the average total annual costs of Very Dangerous funds is over four times that of Very Attractive funds.

Figure 3: Predictive Rating Distribution Stats

	Very Attractive	Attractive	Neutral	Dangerous	Very Dangerous
# of ETFs & Funds	710	1441	2767	1181	586
% of ETFs & Funds	11%	21%	41%	18%	9%
% of TNA	11%	48%	29%	10%	2%
Avg TAC	0.70%	0.57%	1.50%	1.22%	3.02%

* Avg TAC = Weighted Average Total Annual Costs

Source: New Constructs, LLC and company filings

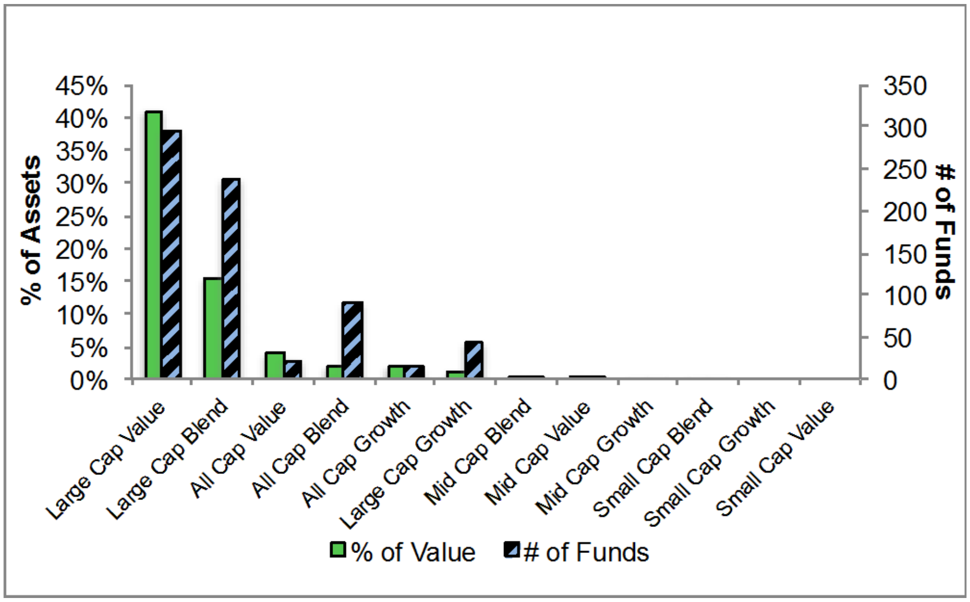
This table shows that only the best of the best funds get our Very Attractive Rating: they must hold good stocks AND have low costs. Investors deserve to have the best of both and we are here to give it to them.

Ratings by Investment Style

Figure 4 presents a mapping of Very Attractive funds by investment style. The chart shows the number of Very Attractive funds in each investment style and the percentage of assets in each style allocated to funds that are rated Very Attractive.

710 investment style funds earn our Very Attractive rating.

Figure 4: Very Attractive ETFs & Mutual Funds by Investment Style



Source: New Constructs, LLC and company filings

Figure 5 presents the data charted in Figure 4

Figure 5: Very Attractive ETFs & Mutual Funds by Investment Style

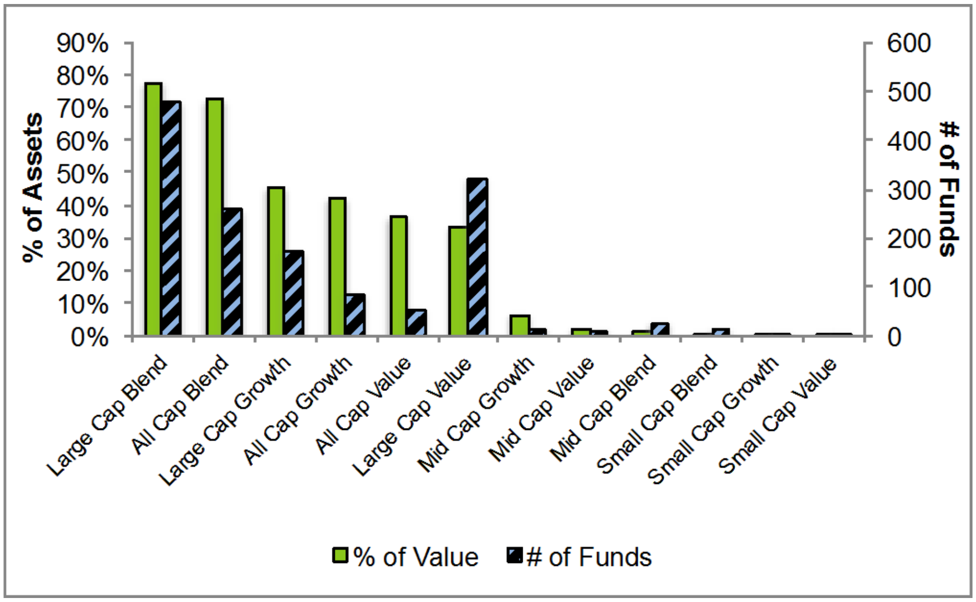
Style	% of Style Assets	# of Very Attractive Funds	% of Very Attractive Funds in Style
Large Cap Value	41%	296	31%
Large Cap Blend	15%	238	25%
All Cap Value	4%	23	9%
All Cap Blend	2%	91	11%
All Cap Growth	2%	14	3%
Large Cap Growth	1%	43	6%
Mid Cap Blend	0%	2	1%
Mid Cap Value	0%	3	2%
Mid Cap Growth	0%	0	0%
Small Cap Blend	0%	0	0%
Small Cap Growth	0%	0	0%
Small Cap Value	0%	0	0%

Source: New Constructs, LLC and company filings

Figure 6 presents a mapping of Attractive funds by investment style. The chart shows the number of Attractive funds in each style and the percentage of assets allocated to Attractive-rated funds in each style.

Note that the Large Cap Blend and the Large Cap Value funds have the highest number of Attractive Funds.

Figure 6: Attractive ETFs & Mutual Funds by Investment Style



Source: New Constructs, LLC and company filings

Figure 7 presents the data charted in Figure 6.

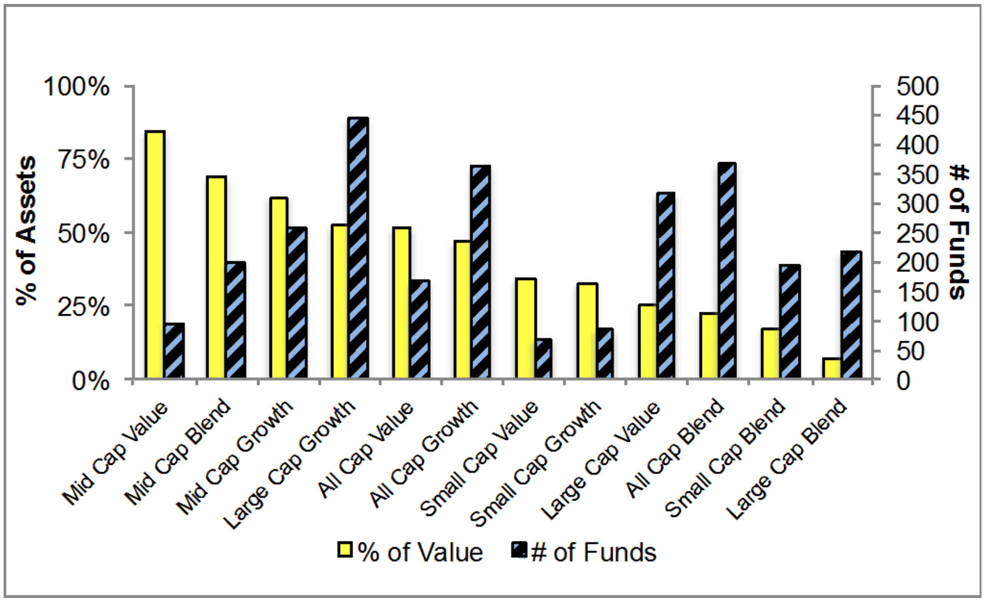
Figure 7: Attractive ETFs & Mutual Funds by Investment Style

Style	% of Style Assets	# of Attractive Funds	% of Attractive Funds in Style
Large Cap Blend	78%	478	50%
All Cap Blend	72%	257	31%
Large Cap Growth	45%	172	25%
All Cap Growth	42%	86	16%
All Cap Value	36%	54	20%
Large Cap Value	33%	322	34%
Mid Cap Growth	6%	14	3%
Mid Cap Value	2%	11	7%
Mid Cap Blend	1%	27	8%
Small Cap Blend	0%	13	2%
Small Cap Growth	0%	6	1%
Small Cap Value	0%	1	0%

Source: New Constructs, LLC and company filings

Figure 8 presents a mapping of Neutral funds by investment style. The chart shows the number of Neutral funds in each investment style and the percentage of assets allocated to Neutral-rated funds in each style.

Figure 8: Neutral ETFs & Mutual Funds by Investment Style



Source: New Constructs, LLC and company filings

Figure 9 presents the data charted in Figure 8.

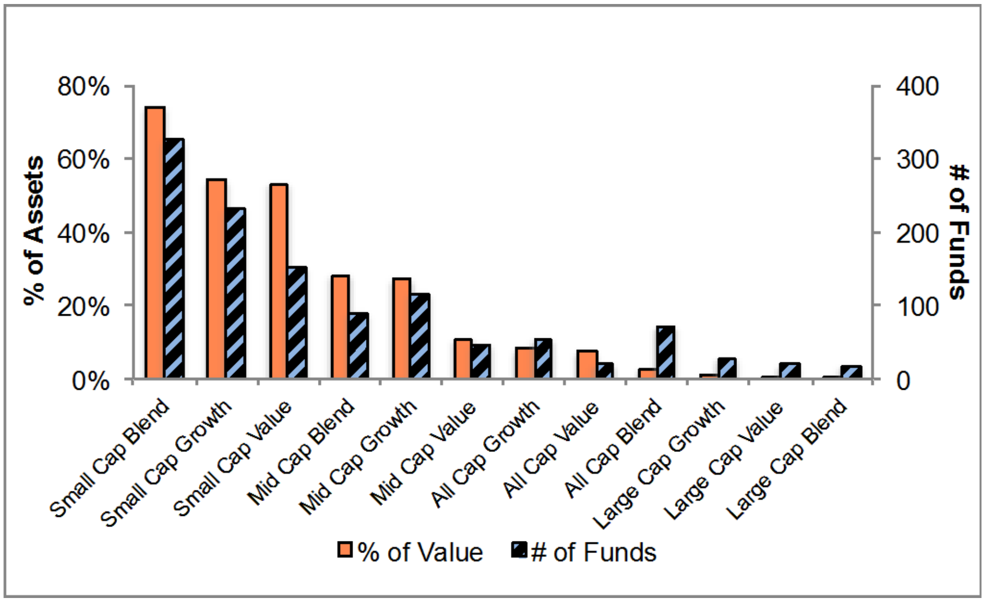
Figure 9: Neutral ETFs & Mutual Funds by Investment Style

Style	% of Style Assets	# of Neutral Funds	% of Neutral Funds in Style
Mid Cap Value	84%	96	57%
Mid Cap Blend	69%	199	57%
Mid Cap Growth	62%	258	61%
Large Cap Growth	52%	443	64%
All Cap Value	51%	166	62%
All Cap Growth	47%	361	68%
Small Cap Value	34%	69	23%
Small Cap Growth	33%	85	17%
Large Cap Value	25%	315	33%
All Cap Blend	22%	365	44%
Small Cap Blend	17%	195	28%
Large Cap Blend	7%	215	22%

Source: New Constructs, LLC and company filings

Figure 10 presents a mapping of Dangerous funds by fund style. The chart shows the number of Dangerous funds in each investment style and the percentage of assets allocated to Dangerous-rated funds in each style.

Figure 10: Dangerous ETFs & Mutual Funds by Investment Style



Source: New Constructs, LLC and company filings

Figure 11 presents the data charted in Figure 10.

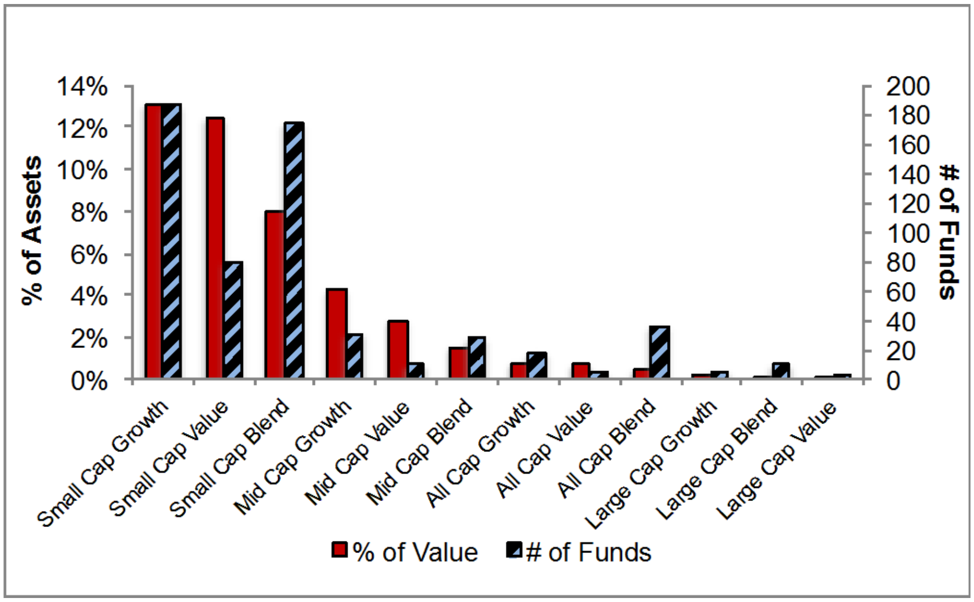
Figure 11: Dangerous ETFs & Mutual Funds by Investment Style

Style	% of Style Assets	# of Dangerous Funds	% of Dangerous Funds in Style
Small Cap Blend	74%	325	46%
Small Cap Growth	54%	232	46%
Small Cap Value	53%	152	50%
Mid Cap Blend	28%	91	26%
Mid Cap Growth	27%	117	28%
Mid Cap Value	11%	48	29%
All Cap Growth	8%	55	10%
All Cap Value	8%	21	8%
All Cap Blend	3%	72	9%
Large Cap Growth	1%	29	4%
Large Cap Value	0%	20	2%
Large Cap Blend	0%	19	2%

Source: New Constructs, LLC and company filings

Figure 12 presents a mapping of Very Dangerous funds by fund style. The chart shows the number of Very Dangerous funds in each investment style and the percentage of assets in each style allocated to funds that are rated Very Dangerous.

Figure 12: Very Dangerous ETFs & Mutual Funds by Investment Style



Source: New Constructs, LLC and company filings

Figure 13 presents the data charted in Figure 12.

Figure 13: Very Dangerous ETFs & Mutual Funds by Investment Style

Style	% of Style Assets	# of Very Dangerous Funds	% of Very Dangerous Funds in Style
Small Cap Growth	13%	186	37%
Small Cap Value	12%	80	26%
Small Cap Blend	8%	174	25%
Mid Cap Growth	4%	31	7%
Mid Cap Value	3%	10	6%
Mid Cap Blend	2%	28	8%
All Cap Growth	1%	18	3%
All Cap Value	1%	5	2%
All Cap Blend	0%	36	4%
Large Cap Growth	0%	5	1%
Large Cap Blend	0%	10	1%
Large Cap Value	0%	3	0%

Source: New Constructs, LLC and company filings

Disclosure: David Trainer and Allen L. Jackson receive no compensation to write about any specific stock, sector or theme.

Appendix: Predictive Fund Rating System

New Constructs' Predictive fund Ratings enable smarter investing by assessing the key drivers of future fund performance. We start by analyzing every funds' holdings based on New Constructs' stock ratings, which are regularly featured as among the best by Barron's. Next, we measure and rank the all-in fund expenses. Finally, we rank the fund compared to all other funds to identify the best and worst funds in the market.

Intuitively, there are two drivers for future fund performance.

1. Stock-picking (Portfolio Management Rating) and
2. Fund expenses (Total Annual Costs Rating)

Our Predictive Fund Rating is based on these drivers and the fund's ranking:

1. Top 10% = Very Attractive Rating
2. Next 20% = Attractive Rating
3. Next 40% = Neutral Rating
4. Next 20% = Dangerous Rating
5. Bottom 10% = Very Dangerous Rating

The figure below details the criteria that drive our Predictive Rating system for funds. The two drivers of our Predictive Ratings system are Portfolio Management and Total Annual Costs. The Portfolio Management ratings (detail here) is the same as our Stock Rating (detail here) except that we incorporate Asset Allocation (details here). The Total Annual Costs Ratings (details here) captures the all-in costs of being in a fund over a 3-year holding period, the average period for all mutual funds.

Predictive Rating	Portfolio Management Rating						Total Annual Costs
	Business Strength		Valuation			Cash Allocation	
	Quality of Earnings	Return on Invested Capital	FCF Yield	Price to Economic Book Value	Market-Implied Duration of Growth		
Very Dangerous	Misleading Trend	Bottom Quintile	< -5%	>3.5 or -1<0	> 50	> 20%	> 4 %
Dangerous	False Positive	4th Quintile	-5% < -1%	2.4<3.5 or <-1	20 < 50	8% < 20%	2% < 4%
Neutral	Neutral EE	3rd Quintile	-1% < 3%	1.6 < 2.4	10 < 20	2.5% < 8%	1% < 2%
Attractive	Positive EE	2nd Quintile	3% < 10%	1.1 < 1.6	3 < 10	1% < 2.5%	0.5% < 1%
Very Attractive	Rising EE	Top Quintile	> 10%	0 < 1.1	0 < 3	<1%	< 0.5%

New Constructs® – Profile

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Our Philosophy About Research

Accounting data is not designed for equity investors, but for debt investors. Accounting data must be translated into economic earnings to understand the profitability and valuation relevant to equity investors. Respected investors (e.g. Adam Smith, Warren Buffett and Ben Graham) have repeatedly emphasized that accounting results should not be used to value stocks. Economic earnings are what matter because they are:

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

Additional Information

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