ETF & Mutual Fund Rankings: All Cap Blend Style

The All Cap Blend style ranks third out of the twelve fund styles as detailed in our 2Q16 Style Ratings for ETFs and Mutual Funds report. Last quarter, the All Cap Blend style ranked third as well. It gets our Neutral rating, which is based on aggregation of ratings of 71 ETFs and 684 mutual funds in the All Cap Blend style as of April 29, 2016. See a recap of our 1Q16 Style Ratings here.

Figures 1 and 2 show the five best and worst rated ETFs and mutual funds in the style. Not all All Cap Blend style ETFs and mutual funds are created the same. The number of holdings varies widely (from 4 to 3694). This variation creates drastically different investment implications and, therefore, ratings.

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

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				
UDOW	40%	43%	17%	Very Attractive
DDM	40%	43%	17%	Very Attractive
UYG	30%	41%	18%	Very Attractive
TTFS	44%	43%	11%	Very Attractive
SPHQ	36%	49%	13%	Very Attractive
Worst ETFs				
URTY	11%	30%	45%	Dangerous
UWM	11%	30%	45%	Dangerous
UPW	1%	25%	74%	Dangerous
LTL	16%	3%	72%	Very Dangerous
DIG	4%	5%	88%	Very Dangerous

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

Sources: New Constructs, LLC and company filings

State Street SPDR S&P 5000 Buyback ETF (SPYB), iShares Enhanced U.S. Large Cap ETF (IELG), and ProShares Ultra Semiconductors (USD) 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				
RMUIX	48%	45%	0%	Very Attractive
FSAIX	45%	37%	7%	Very Attractive
RSMCX	48%	45%	0%	Very Attractive
RSEMX	48%	45%	0%	Very Attractive
RSMLX	48%	45%	0%	Very Attractive
Worst Mutual Funds				
WCPSX	0%	0%	88%	Very Dangerous
VGPAX	7%	11%	8%	Very Dangerous
RYMKX	11%	30%	45%	Very Dangerous
RYCMX	11%	30%	45%	Very Dangerous
RYAKX	11%	30%	45%	Very Dangerous

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

Sources: New Constructs, LLC and company filings

AMG Renaissance Large Cap Growth Fund (MRLIX, MRLSX, MRLTX), Jensen Quality Value Fund (JNVIX, JNVSX), and Hays U.S. Opportunity Fund (HUOIX) are excluded from Figure 2 because their total net assets (TNA) are below $100 million and do not meet our liquidity minimums.

ProShares UltraPro Dow30 (UDOW) is the top-rated All Cap Blend ETF and Royce Special Equity Multi-Cap Fund (RMUIX) is the top-rated All Cap Blend mutual fund. Both earn a Very Attractive rating.

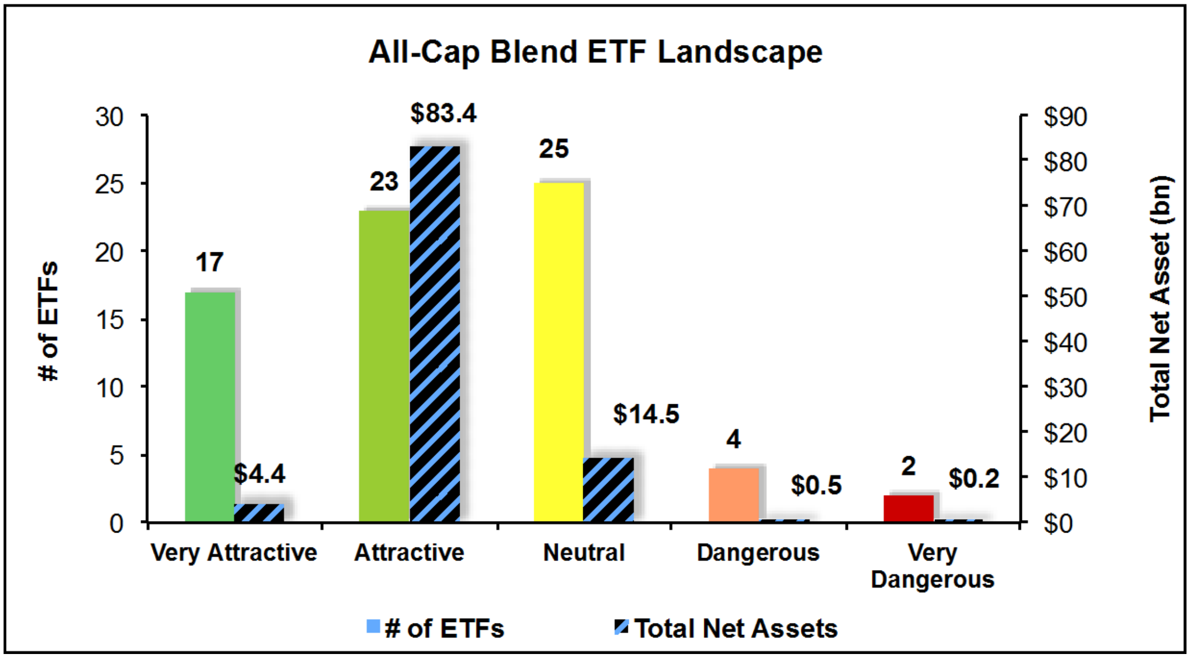
ProShares Ultra Oil & Gas (DIG) is the worst rated All Cap Blend ETF and Rydex Series Russell 2000 1.5x Strategy Fund (RYAKX) is the worst rated All Cap Blend mutual fund. Both earn a Very Dangerous rating.

Nordstrom (JWN: $51/share) is one of our favorite stocks held by RMUIX and earns a Very Attractive rating. Over the past decade, Nordstrom has grown after-tax profit (NOPAT) by 9% compounded annually. Over this time, the company has improved its return on invested capital (ROIC) from 9% in 2005 to 11% over the last twelve months. Nordstrom has also generated a cumulative $2.3 billion in free cash flow over the past five years. Despite the underlying fundamentals, JWN remains undervalued. At its current price of $51/share, JWN has a price-to-economic book value (PEBV) ratio of 0.9. This ratio means that the market expects Nordstrom's NOPAT to permanently decline by 10%. If Nordstrom can grow NOPAT by just 5% compounded annually for the next decade, the stock is worth $94/share today – an 84% upside.

Molson Coors Brewing Company (TAP: $96/share) is one of our least favorite stocks held by VGPAX and earns a Dangerous rating. Since 2010, Molson Coors' NOPAT has declined by 2% compounded annually. The company's ROIC has fallen from 8% to 6% over this same timeframe. Molson Coors has failed to generate positive economic earnings in any year of our model, which dates back to 1998. To justify its current price of $96/share, Molson Coors must grow NOPAT by 10% compounded annually for the next 11 years. This expectation seems overly optimistic given the company's profit decline since 2010.

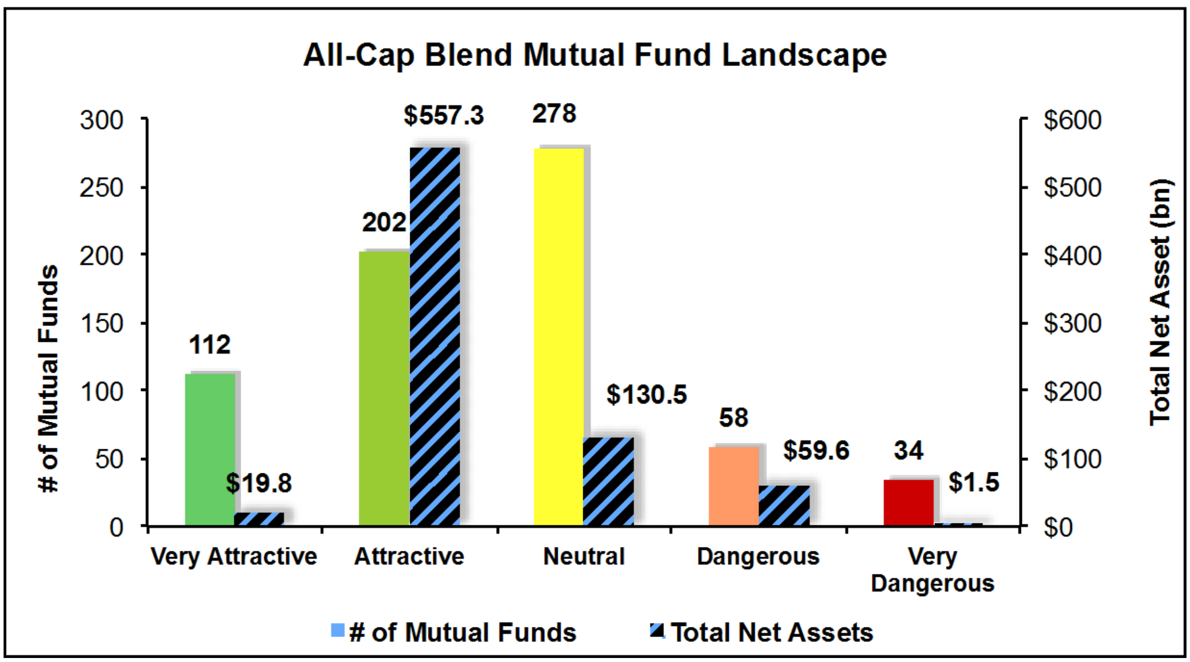
Figures 3 and 4 show the rating landscape of all All Cap Blend ETFs and mutual funds.

Figure 3: Separating the Best ETFs From the Worst Funds



Sources: New Constructs, LLC and company filings

Figure 4: Separating the Best Mutual Funds From the Worst Funds



Sources: New Constructs, LLC and company filings

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

New Constructs® – Profile

How New Constructs Creates Value for Clients

We find it. You benefit. Cutting-edge technology enables us to scale our forensic accounting expertise across 3000+ stocks. We shine a light in the dark corners of SEC filings so our clients can make safer, more informed decisions.
Our stock rating methodology instantly informs you of the quality of the business and the fairness of the stock's valuation. We do the diligence on earnings quality and valuation so you don't have to.

In-depth risk/reward analysis underpins our ratings. Our rating methodology grades every stock, ETF, and mutual fund according to what we believe are the 5 most important criteria for assessing the quality of an equity. Each grade reflects the balance of potential risk and reward of buying that equity. Our analysis results in the 5 ratings described below. Very Attractive and Attractive correspond to a "Buy" rating, Very Dangerous and Dangerous correspond to a "Sell" rating, while Neutral corresponds to a "Hold" rating.

QUESTION: Why shouldn't fund research be as good as stock research? Why should fund investors rely on backward-looking price trends?
ANSWER: They should not.

Don't judge a fund by its cover. Take a look inside at its holdings and understand the quality of earnings and valuation of the stocks it holds. We enable you to choose the best fund based on its stock-picking merits so you do not have to rely solely on backward-looking technical metrics.

The drivers of our forward-looking fund ratings are Portfolio Management (i.e. the aggregated ratings of its holdings) and Total Annual Costs. The Total Annual Costs Rating (details here) captures the all-in cost of being in a fund over a 3-year holding period, the average period for all fund investors.

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.

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