ETF & Mutual Fund Rankings: All Cap Growth Style

The All Cap Growth style ranks eighth out of the twelve fund styles as detailed in our 2Q16 Style Ratings for ETFs and Mutual Funds report. Last quarter, the All Cap Growth style ranked seventh. It gets our Neutral rating, which is based on aggregation of ratings of 17 ETFs and 547 mutual funds in the All Cap Growth 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 Growth style ETFs and mutual funds are created the same. The number of holdings varies widely (from 13 to 2185). This variation creates drastically different investment implications and, therefore, ratings.

Investors seeking exposure to the All Cap Growth 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				
IUSG	21%	47%	25%	Attractive
PDP	11%	52%	35%	Attractive
QQEW	27%	33%	33%	Attractive
ONEQ	25%	33%	29%	Neutral
IWP	19%	44%	31%	Neutral
Worst ETFs				
GURU	12%	33%	40%	Neutral
QQXT	17%	34%	40%	Neutral
FTC	15%	46%	38%	Neutral
FAD	13%	44%	40%	Neutral
CFGE	20%	38%	38%	Neutral

* 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. See our ETF screener for more details.

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				
ESEIX	11%	61%	15%	Very Attractive
ESECX	11%	61%	15%	Very Attractive
NICSX	13%	51%	21%	Very Attractive
MNNYX	39%	36%	21%	Attractive
MNNRX	39%	36%	21%	Attractive
Worst Mutual Funds				
SGFFX	16%	32%	43%	Very Dangerous
JTCAX	8%	16%	11%	Very Dangerous
KAUBX	7%	20%	40%	Very Dangerous
KAUAX	7%	20%	40%	Very Dangerous
ADOAX	3%	32%	24%	Very Dangerous

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

Sources: New Constructs, LLC and company filings

PNC Large Cap Growth Fund (PEWIX, PEWCX) and Catalyst/Lyons Hedged Premium Return Fund (CLPFX) are excluded from Figure 2 because their total net assets (TNA) are below $100 million and do not meet our liquidity minimums.

iShares Core US Growth ETF (IUSG) is the top-rated All Cap Growth ETF and Eaton Vance Atlanta Capital Select Equity Fund (ESEIX) is the top-rated All Cap Growth mutual fund. IUSG earns an Attractive rating and ESEIX earns a Very Attractive rating.

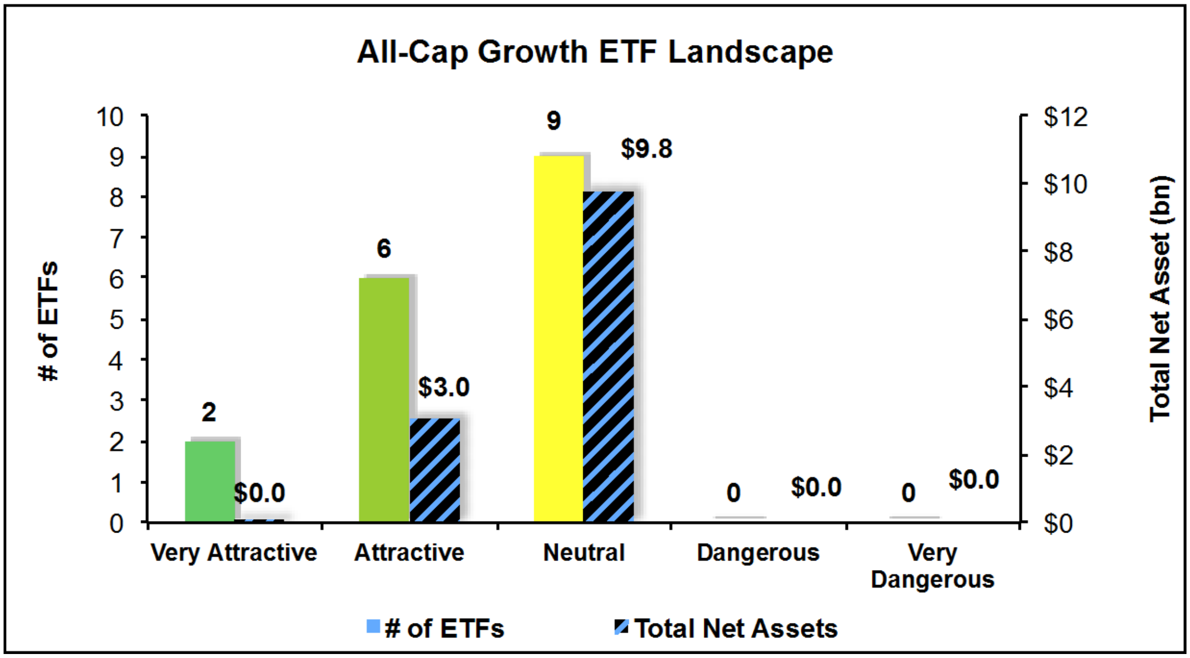
Calamos Focus Growth ETF (CFGE) is the worst rated All Cap Growth ETF and ACM Dynamic Opportunity Fund (ADOAX) is the worst rated All Cap Growth mutual fund. CFGE earns a Neutral rating and ADOAX earns a Very Dangerous rating.

Gilead Sciences (GILD: $88/share) is one of our favorite stocks held by MNNYX and earns a Very Attractive rating. Gilead has grown after-tax profit (NOPAT) by 39% compounded annually since 2005. Over the same time, Gilead has increased its return on invested capital (ROIC) from 37% in 2005 to a top-quintile 88% in 2015. Over the past five years, Gilead has generated a cumulative $26 billion in free cash flow. Despite the operational successes, GILD remains undervalued. At its current price of $88/share, GILD has a price-to-economic book value (PEBV) ratio of 0.6. This ratio means that the market expects Gilead's NOPAT to permanently decline by 40%. However, if Gilead can grow NOPAT by just 4% compounded annually for the next five years, the stock is worth $183/share today – a 107% upside.

DexCom (DXCM: $64/share) is one of our least favorite stocks held by KAUBX and earns a Dangerous rating. Over the past decade, DexCom's NOPAT has declined from -$37 million to -$54 million. The company's ROIC has been negative in every year since IPO and is currently a bottom quintile -28%. Nevertheless, DXCM is priced as though the company will achieve high levels of profitability. To justify its current price of $64/share, DXCM must immediately achieve 5% pre-tax margins (from -13% in 2015) and grow revenue by 31% compounded annually for the next 17 years. We feel it should be clear just how overvalued DXCM is at the current price.

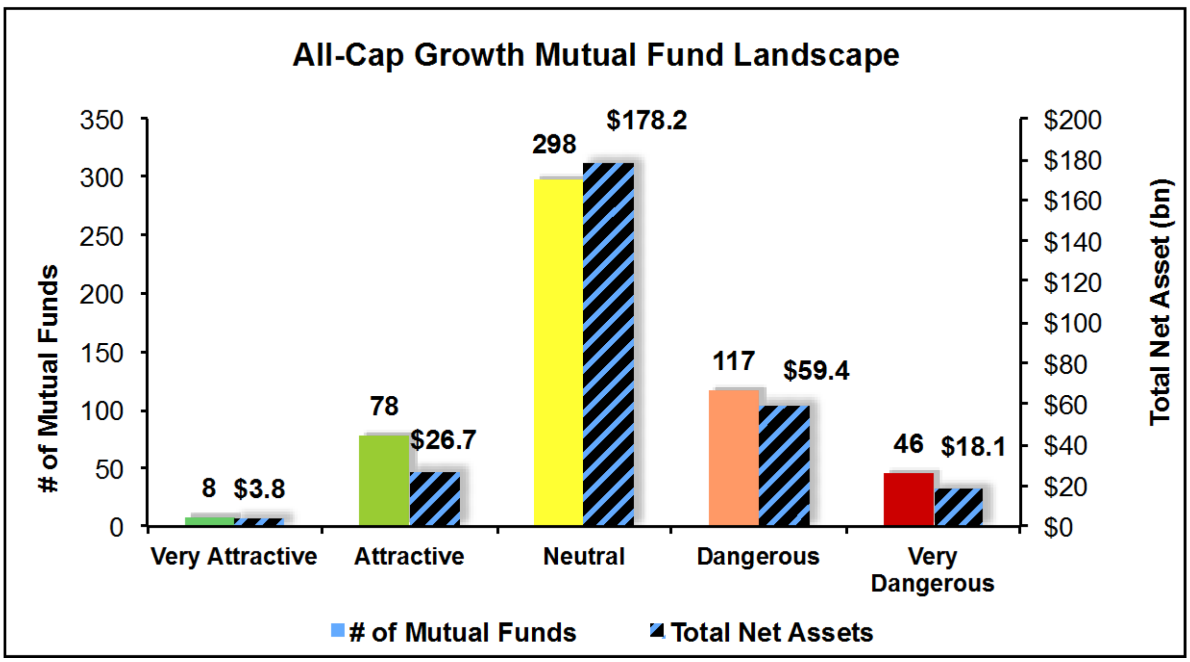
Figures 3 and 4 show the rating landscape of all All Cap Growth ETFs and mutual funds.

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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