ETF & Mutual Fund Rankings: All Cap Value Style

The All Cap Value style ranks fourth out of the twelve fund styles as detailed in our 2Q16 Style Ratings for ETFs and Mutual Funds report. Last quarter, the All Cap Value style ranked fourth as well. It gets our Neutral rating, which is based on aggregation of ratings of 11 ETFs and 280 mutual funds in the All Cap Value style as of May 2, 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 Value style ETFs and mutual funds are created the same. The number of holdings varies widely (from 14 to 2010). This variation creates drastically different investment implications and, therefore, ratings.

Investors seeking exposure to the All Cap Value 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				
FTA	35%	32%	29%	**Attractive**
FNDB	28%	35%	34%	**Attractive**
PRF	26%	36%	34%	**Attractive**
FVD	18%	42%	33%	**Attractive**
RPV	27%	35%	32%	**Attractive**
Worst ETFs				
CDC	30%	32%	37%	**Neutral**
EZY	24%	43%	30%	**Neutral**
FLAG	25%	39%	32%	**Neutral**
DVP	29%	20%	47%	**Neutral**
IUSV	27%	26%	39%	**Neutral**

* 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 1500 Value TILT ETF (VLU) is excluded from Figure 1 because its 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				
QUERX	29%	44%	21%	Very Attractive
AUEIX	29%	44%	21%	Very Attractive
FLVEX	48%	24%	25%	Very Attractive
AUENX	29%	44%	21%	Very Attractive
BVEFX	29%	36%	25%	Very Attractive
Worst Mutual Funds				
SAMVX	16%	33%	42%	Very Dangerous
BUYIX	33%	39%	23%	Very Dangerous
BUYCX	33%	39%	23%	Very Dangerous
BUYAX	33%	39%	23%	Very Dangerous
CAXAX	14%	21%	28%	Very Dangerous

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

Sources: New Constructs, LLC and company filings

Brown Advisory Value Equity Fund (BAFVX, BIAVX, BAVAX), CornerCap Large/Mid Cap Value Fund (CMCRX), and Aspiration Redwood Fund (REDWX) are excluded from Figure 2 because their total net assets (TNA) are below $100 million and do not meet our liquidity minimums.

First Trust Large Cap Value AlphaDEX Fund (FTA) is the top-rated All Cap Value ETF and AQR Large Cap Defensive Style Fund (QUERX) is the top-rated All Cap Value mutual fund. FTA earns an Attractive rating and QUERX earns a Very Attractive rating.

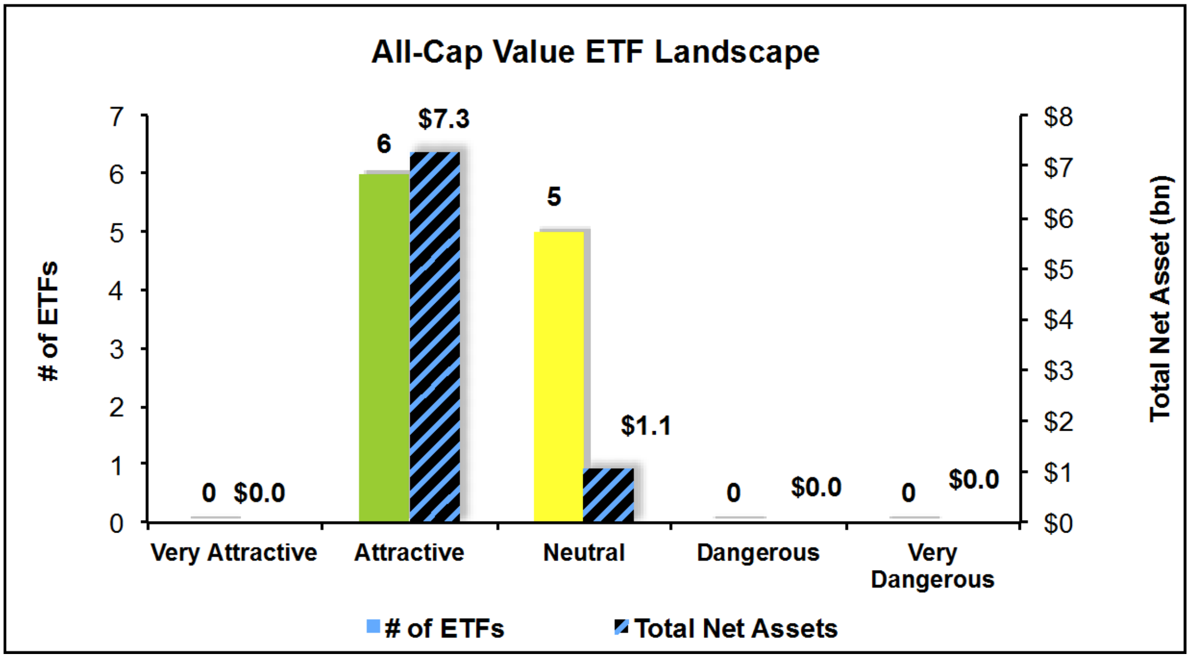
iShares Core US Value ETF (IUSV) is the worst rated All Cap Value ETF and Catalyst/MAP Global Capital Appreciation Fund (CAXAX) is the worst rated All Cap Value mutual fund. IUSV earns a Neutral rating and CAXAX earns a Very Dangerous rating.

Paccar Inc. (PCAR: $59/share) is one of our favorite stocks held by FTA and earns a Very Attractive rating. Since 1998, Paccar has grown after-tax profit (NOPAT) by 8% compounded annually. The company has improved its return on invested capital (ROIC) from 7% in 2010 to a top-quintile 19% in 2015. At the same time, Paccar has generated a cumulative $3.4 billion in free cash flow since 2010. Despite this profit growth, PCAR remains undervalued. At its current price of $59/share, PCAR has a price-to-economic book value (PEBV) ratio of 1.1. This ratio means that the market expects Paccar's NOPAT to increase by only 10% over the remainder of its corporate life. If Paccar can grow NOPAT by just 7% compounded annually over the next decade, the stock is worth $76/share – a 29% upside.

Lazard, Ltd (LAZ: $36/share) is one of our least favorite stocks held by SAMVX and earns a Very Dangerous rating. Since 2006, Lazard's NOPAT has declined by 28% compounded annually. The company's ROIC has fallen from 68% in 2006 to a bottom-quintile 1% in the last twelve months. With such poor business fundamentals, it should come as no surprise that LAZ is down 10% over the past five years. However, LAZ remains significantly overvalued. To justify its current price of $36/share, Lazard must immediately achieve 8% pre-tax margins (1% over the last twelve months) and grow revenue by 18% compounded annually for the next 12 years. Given the business performance over the past nine years, this expectation seems overly optimistic.

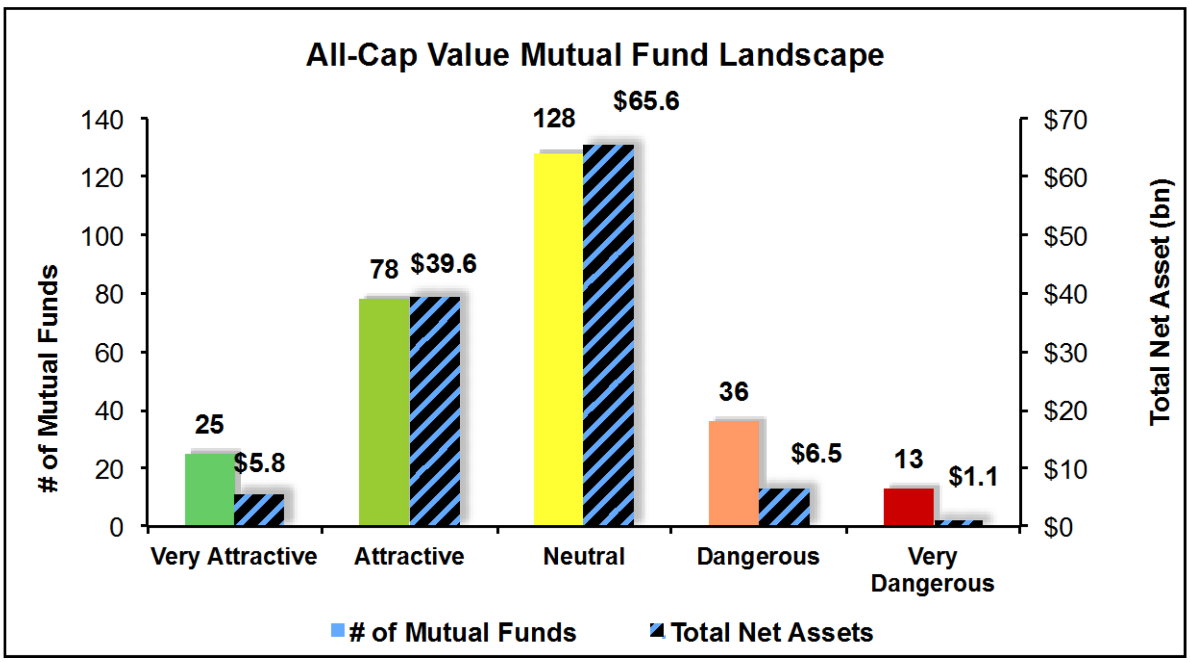
Figures 3 and 4 show the rating landscape of all All Cap Value ETFs and mutual funds.

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.

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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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