ETF & Mutual Fund Rankings: Large Cap Growth Style

The Large Cap Growth style ranks sixth out of the twelve fund styles as detailed in our 2Q16 Style Ratings for ETFs and Mutual Funds report. Last quarter, the Large Cap Growth style ranked fifth. It gets our Neutral rating, which is based on aggregation of ratings of 18 ETFs and 649 mutual funds in the Large Cap Growth style as of May 3, 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 Large Cap Growth style ETFs and mutual funds are created the same. The number of holdings varies widely (from 16 to 681). This variation creates drastically different investment implications and, therefore, ratings.

Investors seeking exposure to the Large 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				
WBIL	29%	42%	11%	Very Attractive
QUAL	32%	45%	18%	Very Attractive
WBIE	21%	52%	15%	Very Attractive
SCHG	18%	44%	31%	Attractive
VONG	22%	47%	24%	Attractive
Worst ETFs				
VUG	19%	45%	31%	Neutral
QQQ	30%	34%	27%	Neutral
JKE	12%	49%	33%	Neutral
SBUS	21%	41%	36%	Neutral
MTUM	19%	37%	37%	Neutral

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

Sources: New Constructs, LLC and company filings

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				
INYDX	35%	44%	12%	Very Attractive
INDCX	35%	44%	12%	Very Attractive
FLGEX	38%	43%	15%	Attractive
GILGX	28%	38%	24%	Attractive
CEYIX	23%	49%	16%	Attractive
Worst Mutual Funds				
OTPIX	9%	10%	8%	Very Dangerous
TWMTX	11%	47%	34%	Very Dangerous
CGJYX	20%	48%	26%	Very Dangerous
DAFGX	7%	36%	50%	Very Dangerous
OTPSX	9%	10%	8%	Very Dangerous

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

Sources: New Constructs, LLC and company filings

Nuveen Growth Fund (NSRGX, NBGRX, NSRCX) is excluded from Figure 2 because its total net assets (TNA) are below $100 million and do not meet our liquidity minimums.

WBI Tactical LCS Shares (WBIL) is the top-rated Large Cap Growth ETF and Pioneer Disciplined Growth Fund (INYDX) is the top-rated Large Cap Growth mutual fund. Both earn a Very Attractive rating.

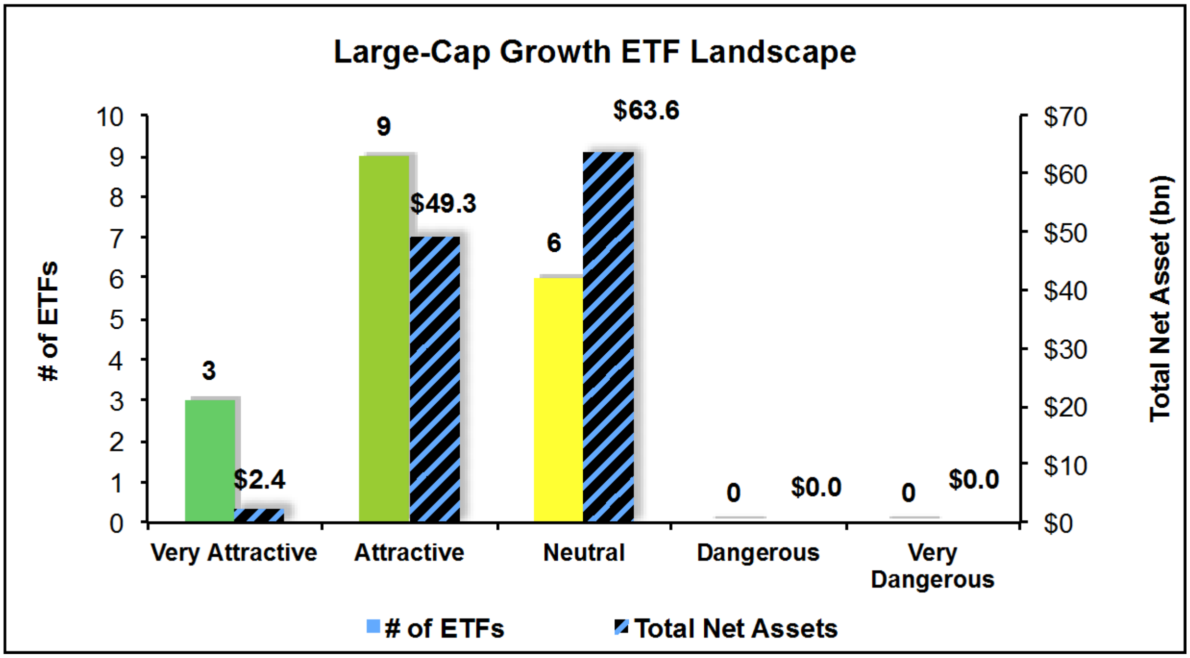
iShares MSCI USA Momentum Factor ETF (MTUM) is the worst rated Large Cap Growth ETF and NASDAQ-100 ProFund (OTPSX) is the worst rated Large Cap Growth mutual fund. MTUM earns a Neutral rating and OTPSX earns a Very Dangerous rating.

Foot Locker (FL: $62/share) remains one of our favorite stocks held by WBIL and earns an Attractive rating. Foot Locker was also featured as a Long Idea in May 2015. Over the past five years, Foot Locker has grown after-tax profit (NOPAT) by 23% compounded annually. The company has improved its return on invested capital (ROIC) from 3% in 2010 to 11% in 2016 while NOPAT margins have increased from 5% to 10% over the same time frame. Despite the improving fundamentals, FL remains a bargain. At its current price of $62/share, Foot Locker has a price-to-economic book value (PEBV) ratio of 1.0. This ratio means that the market expects Foot Locker's NOPAT never to meaningfully grow from its current levels. If Foot Locker can grow NOPAT by just 7% compounded annually over the next five years, the stock is worth $87/share today – a 40% upside.

Workday (WDAY: $75/share) remains one of our least favorite stocks held by Large Cap Growth ETFs and mutual funds and earns a Dangerous rating. Workday was put in the Danger Zone in April 2014, and the situation has only worsened. Since 2013, Workday's NOPAT has declined from -$105 million to -$254 million. The company's ROIC has never been positive and is currently a bottom-quintile -13%. The NOPAT margin is an astonishingly low -22%. Despite the clear problems in the business model, the market still overvalues WDAY. To justify its current price of $75/share, Workday must immediately achieve 8% NOPAT margins (compared to -22% in the last twelve months) and grow revenue by 26% compounded annually for 15 years. In this scenario, the company would be generating $36.8 billion in revenue 15 years from now, which nearly equals tech giant Oracle's 2015 revenue. It seems clear that the expectations already baked into WDAY are overly optimistic.

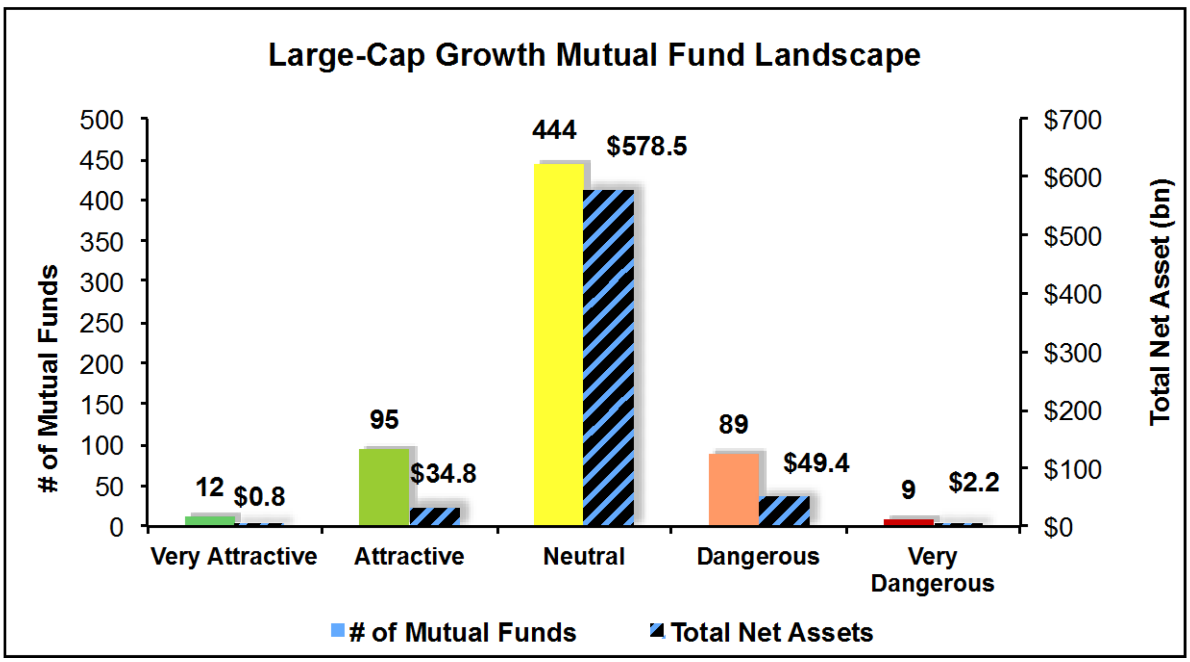
Figures 3 and 4 show the rating landscape of all Large Cap Growth ETFs and mutual funds.

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.

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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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