ETF & Mutual Fund Rankings: Large Cap Value Style

The Large Cap Value style ranks third out of the twelve fund styles as detailed in our 1Q17 Style Ratings for ETFs and Mutual Funds report. Last quarter, the Large Cap Value style ranked third as well. It gets our Neutral rating, which is based on an aggregation of ratings of 45 ETFs and 845 mutual funds in the Large Cap Value style as of January 31, 2017. See a recap of our 4Q16 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 Value style ETFs and mutual funds are created the same. The number of holdings varies widely (from 20 to 884). This variation creates drastically different investment implications and, therefore, ratings.

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

Here is our ETF and mutual fund rating methodology, which leverages our rigorous analysis of each fund's holdings. We think advisors and investors focused on prudent investment decisions should include analysis of fund holdings in their research process for ETFs and mutual funds.

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		
PFM	40%	44%	15%	Very Attractive
FDL	40%	49%	10%	Very Attractive
RWL	36%	36%	24%	Very Attractive
SDY	33%	49%	16%	Very Attractive
FNDX	34%	33%	31%	Very Attractive
		Worst ETFs		
DGRS	24%	50%	20%	Neutral
WBIG	25%	38%	24%	Neutral
WBIC	26%	43%	22%	Neutral
DHS	37%	32%	28%	Neutral
VAMO	31%	57%	38%	Dangerous

* 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				
LAMBX	39%	48%	12%	Very Attractive
LAMCX	39%	48%	12%	Very Attractive
HHDVX	32%	45%	10%	Very Attractive
LAMQX	39%	48%	12%	Very Attractive
LAMRX	39%	48%	12%	Very Attractive
Worst Mutual Funds				
DHQAX	23%	31%	15%	Very Dangerous
NRIGX	9%	11%	72%	Very Dangerous
KMDVX	20%	31%	38%	Very Dangerous
NRGUX	9%	11%	72%	Very Dangerous
NRGDX	9%	11%	72%	Very Dangerous

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

Sources: New Constructs, LLC and company filings

Four mutual funds are excluded from Figure 2 because their total net assets (TNA) are below $100 million and do not meet our liquidity minimums. See our mutual fund screener for more details.

PowerShares Dividend Achievers Portfolio (PFM) is the top-rated Large Cap Value ETF and Lord Abbett Calibrated Dividend Growth (LAMBX) is the top-rated Large Cap Value mutual fund. Both earn a Very Attractive rating.

Cambria Value and Momentum ETF (VAMO) is the worst rated Large Cap Value ETF and Integrity Energized Dividend Fund (NRGDX) is the worst rated Large Cap Value mutual fund. VAMO earns a Dangerous rating while NRGDX earns a Very Dangerous rating.

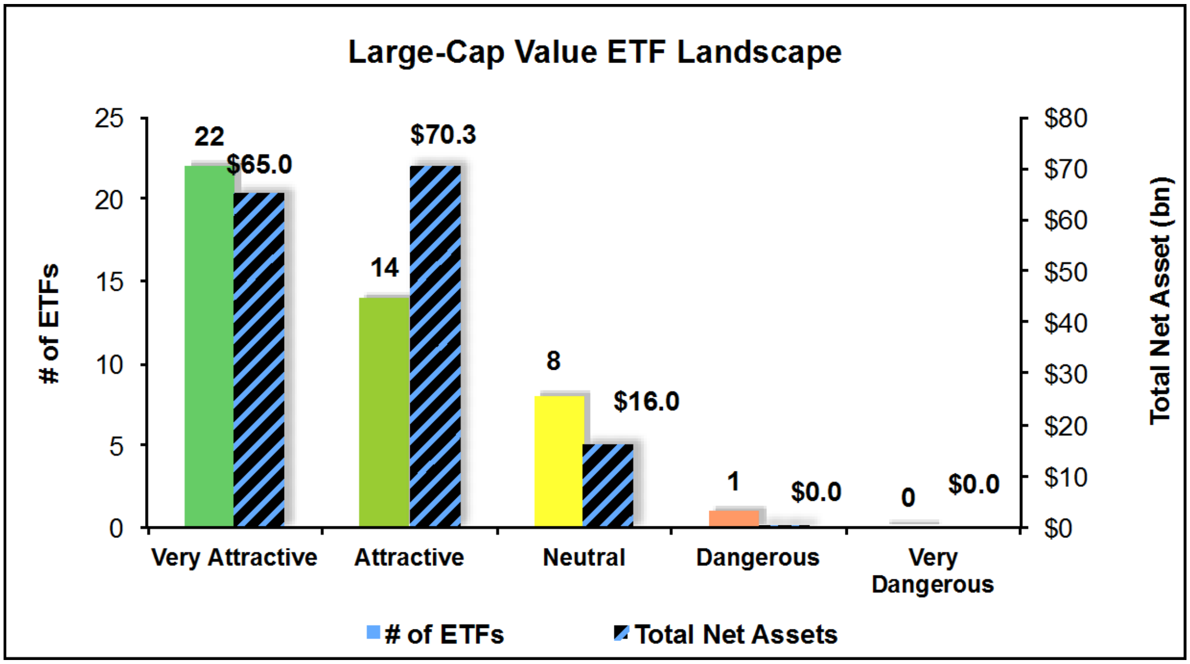
The Danger Within

Buying a fund without analyzing its holdings is like buying a stock without analyzing its business and finances. Put another way, research on fund holdings is necessary due diligence because a fund's performance is only as good as its holdings' performance. Don't just take our word for it, see what Barron's says on this matter.

PERFORMANCE OF HOLDINGs = PERFORMANCE OF FUND

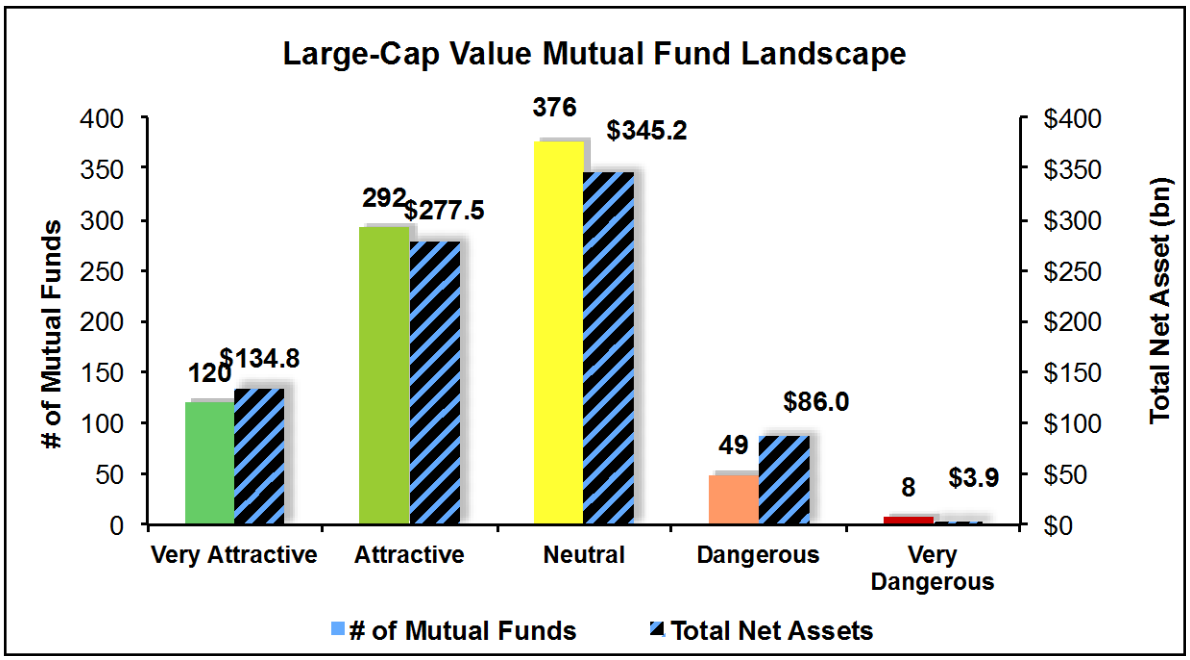
Figures 3 and 4 show the rating landscape of all Large Cap Value ETFs and mutual funds.

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

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Disclosure: David Trainer, Kyle Guske II, and Kyle Martone 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.

Additional Information

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