ETF & Mutual Fund Rankings: Small Cap Growth Style

The Small Cap Growth style ranks eleventh out of the twelve fund styles as detailed in our 2Q18 Style Ratings for ETFs and Mutual Funds report. Last quarter, the Small Cap Growth style ranked last. It gets our Unattractive rating, which is based on an aggregation of ratings of 16 ETFs and 405 mutual funds in the Small Cap Growth style as of April 23, 2018. See a recap of our 1Q18 Style Ratings here.

Figures 1 and 2 show the five best and worst rated ETFs and mutual funds in the style. Not all Small Cap Growth style ETFs and mutual funds are created the same. The number of holdings varies widely (from 12 to 1191). This variation creates drastically different investment implications and, therefore, ratings.

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

Our Robo-Analyst technology[1] empowers our unique ETF and mutual fund rating methodology, which leverages our rigorous analysis of each fund's holdings.[2] 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**	**Unattractive-or-worse Stocks**	**Predictive Rating**
Best ETFs				
SLYG	10%	40%	41%	**Attractive**
VIOG	10%	39%	40%	**Attractive**
IJT	10%	40%	40%	**Attractive**
RFG	20%	39%	34%	**Attractive**
RZG	10%	37%	38%	**Neutral**
Worst ETFs				
JKK	9%	28%	46%	**Unattractive**
PXSG	7%	24%	47%	**Unattractive**
FYC	9%	31%	39%	**Unattractive**
VBK	9%	28%	49%	**Unattractive**
IWO	11%	28%	43%	**Unattractive**

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

Sources: New Constructs, LLC and company filings

PowerShares S&P Small Cap Quality Portfolio (XSHQ), VictoryShares U.S. Small Cap High Dividend Volatility Weighted Index (CSB), and Janus Henderson Small Mid Cap Growth Alpha ETF (JSMD) are excluded from Figure 1 because their total net assets (TNA) are below $100 million and do not meet our liquidity minimums.

[1] Harvard Business School features the powerful impact of our research automation technology in the case New Constructs: Disrupting Fundamental Analysis with Robo-Analysts.

[2] Ernst & Young's recent white paper "Getting ROIC Right" proves the superiority of our holdings research and analytics.

Figure 2: Mutual Funds with the Best & Worst Ratings – Top 5

	Allocation of Mutual Fund Holdings			
Ticker	**Attractive-or-better Stocks**	**Neutral Stocks**	**Unattractive-or-worse Stocks**	**Predictive Rating**
Best Mutual Funds				
VQSRX	26%	41%	10%	Very Attractive
PXQSX	26%	41%	10%	Very Attractive
PQSCX	26%	41%	10%	Very Attractive
VSCRX	17%	40%	16%	Very Attractive
PKSFX	17%	40%	16%	Attractive
Worst Mutual Funds				
OASGX	9%	26%	44%	Very Unattractive
PNSAX	10%	21%	49%	Very Unattractive
IHSAX	11%	16%	42%	Very Unattractive
RSEGX	11%	24%	37%	Very Unattractive
MASCX	11%	23%	40%	Very Unattractive

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

Sources: New Constructs, LLC and company filings

River Oak Discovery Fund (RIVSX) is excluded from Figure 2 because its total net assets (TNA) are below $100 million and do not meet our liquidity minimums.

State Street SPDR S&P 600 Small Cap Growth ETF (SLYG) is the top-rated Small Cap Growth ETF and Virtus KAR Small Cap Value Fund (VQSRX) is the top-rated Small Cap Growth mutual fund. SLYG earns an Attractive rating and VQSRX earns a Very Attractive rating.

iShares Russell 2000 Growth ETF (IWO) is the worst rated Small Cap Growth ETF and Victory Munder Small Cap Growth Fund (MASCX) is the worst rated Small Cap Growth mutual fund. IWO earns an Unattractive rating and MASCX earns a Very Unattractive rating.

The Danger Within

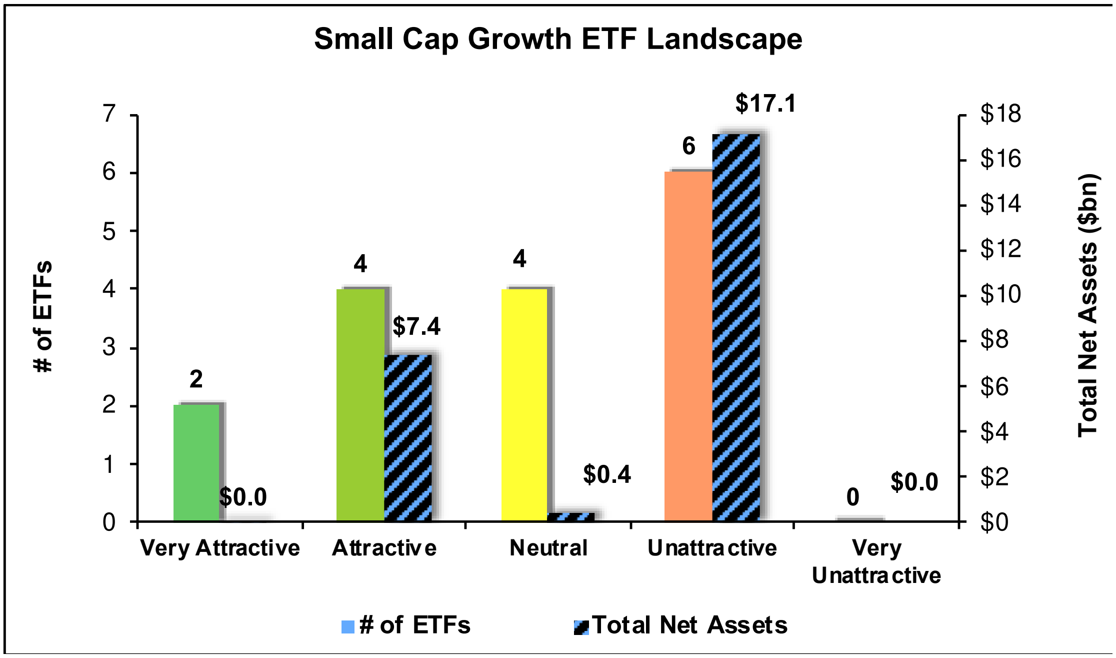
Buying a fund without analyzing its holdings is like buying a stock without analyzing its business and finances. Put another way, research on fund holdings is necessary due diligence because a fund's performance is only as good as its holdings' performance. Don't just take our word for it, see what Barron's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

PERFORMANCE OF HOLDINGs = PERFORMANCE OF FUND

Analyzing each holding within funds is no small task. Our Robo-Analyst technology enables us to perform this diligence with scale and provide the research needed to fulfill the fiduciary duty of care. More of the biggest names in the financial industry (see At BlackRock, Machines Are Rising Over Managers to Pick Stocks) are now embracing technology to leverage machines in the investment research process. Technology may be the only solution to the dual mandate for research: cut costs and fulfill the fiduciary duty of care. Investors, clients, advisors and analysts deserve the latest in technology to get the diligence required to make prudent investment decisions.

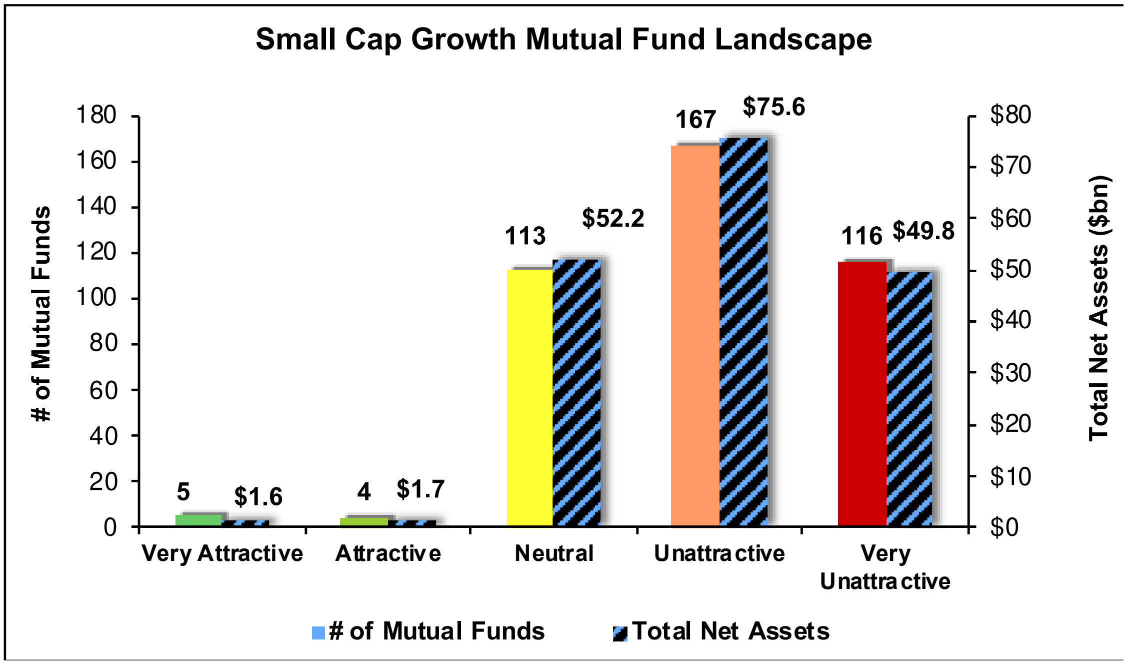
Figures 3 and 4 show the rating landscape of all Small Cap Growth ETFs and mutual funds.

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

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

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To fulfill the Duty of Care, research should be:

1. **Comprehensive** - All relevant publicly-available (e.g. 10-Ks and 10-Qs) information has been diligently reviewed, including footnotes and the management discussion & analysis (MD&A).
2. **Un-conflicted** - Clients deserve unbiased research.
3. **Transparent** - Advisors should be able to show how the analysis was performed and the data behind it.
4. **Relevant** - Empirical evidence must provide tangible, quantifiable correlation to stock, ETF or mutual fund performance.

Value Investing 2.0: Diligence Matters: Technology is Key to Value Investing With Scale

Accounting data is only the beginning of fundamental research. It must be translated into economic earnings to truly understand profitability and valuation. This translation requires deep analysis of footnotes and the MD&A, a process that our robo-analyst technology empowers us to perform for thousands of stocks, ETFs and mutual funds.

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