



## ETF & Mutual Fund Rankings: Small Cap Value Style

The Small Cap Value style ranks eleventh out of the twelve fund styles as detailed in our [3Q18 Style Ratings for ETFs and Mutual Funds](#) report. [Last quarter](#), the Small Cap Value style ranked last. It gets our Unattractive rating, which is based on an aggregation of ratings of 19 ETFs and 242 mutual funds in the Small Cap Value style as of July 23, 2018. See a recap of our [2Q18 Style Ratings here](#).

Figures 1 and 2 show the best and worst rated ETFs and mutual funds in the style. Not all Small Cap Value style ETFs and mutual funds are created the same. The number of holdings varies widely (from 24 to 1485). This variation creates drastically different investment implications and, therefore, ratings.

Investors seeking exposure to the Small Cap Value style should buy one of the Attractive-or-better rated mutual funds from Figure 2.

Our [Robo-Analyst technology](#)<sup>1</sup> empowers our unique [ETF and mutual fund rating methodology](#), which leverages our rigorous analysis of each fund's holdings.<sup>2</sup> 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**

Ticker	Allocation of ETF Holdings			Predictive Rating
	Attractive-or-better Stocks	Neutral Stocks	Unattractive-or-worse Stocks	
<b>Best ETFs (only 4)</b>				
VBR	16%	38%	37%	Neutral
SMLV	16%	35%	36%	Neutral
DES	13%	35%	41%	Neutral
RFV	17%	38%	45%	Neutral
<b>Worst ETFs</b>				
VIOV	8%	31%	53%	Unattractive
IJJ	12%	42%	43%	Unattractive
PXSV	12%	24%	50%	Unattractive
RWJ	8%	32%	52%	Unattractive
RZV	12%	29%	52%	Unattractive

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

Sources: New Constructs, LLC and company filings

Legg Mason Small Cap Quality Value ETF (SQLV) is excluded from Figure 1 because its total net assets (TNA) are below \$100 million and do not meet our liquidity minimums.

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

<sup>2</sup> 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**

Ticker	Allocation of Mutual Fund Holdings			Predictive Rating
	Attractive-or-better Stocks	Neutral Stocks	Unattractive-or-worse Stocks	
<b>Best Mutual Funds</b>				
RVVHX	33%	34%	12%	Very Attractive
RSEIX	33%	36%	16%	Very Attractive
RYSEX	33%	36%	16%	Very Attractive
RSEFX	33%	36%	16%	Very Attractive
RYVFX	33%	34%	12%	Very Attractive
<b>Worst Mutual Funds</b>				
PSLMX	10%	21%	41%	Very Unattractive
PSLAX	10%	21%	41%	Very Unattractive
PGSCX	4%	9%	75%	Very Unattractive
PASMx	4%	9%	75%	Very Unattractive
PEVAX	7%	18%	26%	Very Unattractive

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

Sources: New Constructs, LLC and company filings

Vanguard Small Cap Value Index Fund (VBR) is the top-rated Small Cap Value ETF and Royce Small Cap Value Fund (RVVHX) is the top-rated Small Cap Value mutual fund. VBR earns a Neutral rating and RVVHX earns a Very Attractive rating.

Invesco S&P Small Cap 600 Pure Value ETF (RZV) is the worst rated Small Cap Value ETF and PACE Small/Medium Value Equity Investments (PEVAX) is the worst rated Small Cap Value mutual fund. RZV earns an Unattractive rating and PEVAX 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.

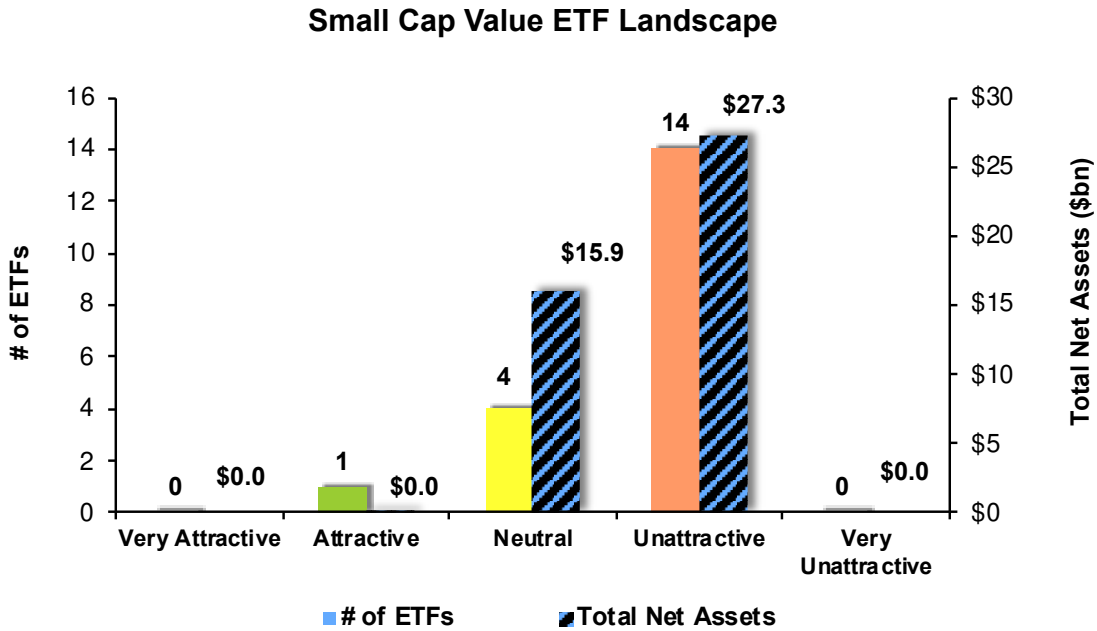
PERFORMANCE OF HOLDINGS = PERFORMANCE OF FUND

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.



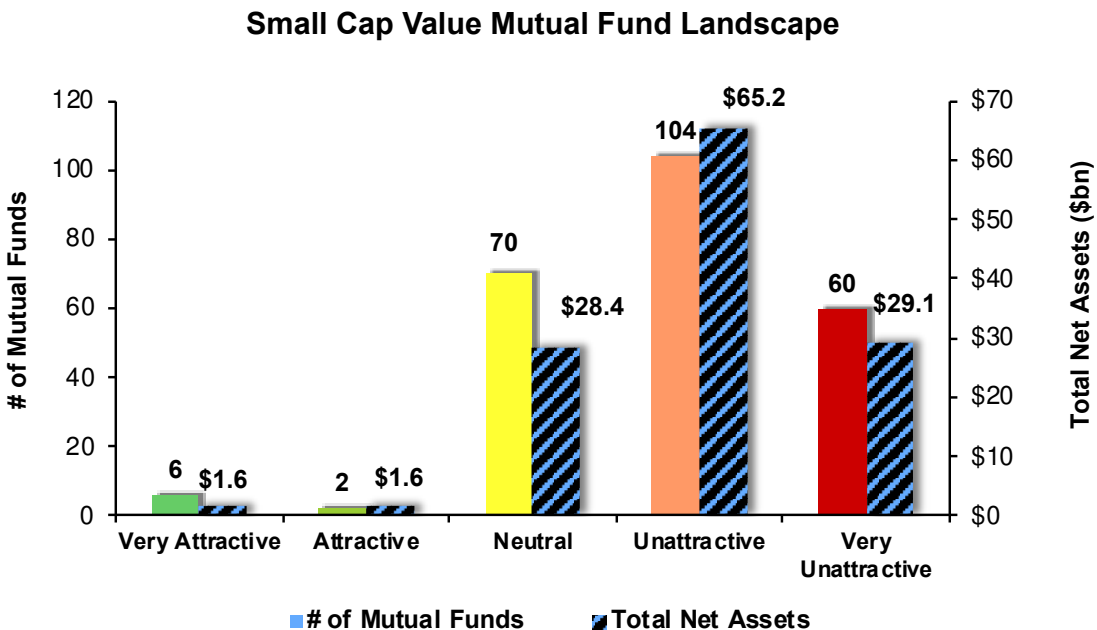
Figures 3 and 4 show the rating landscape of all Small Cap Value ETFs and mutual funds.

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 Sam McBride receive no compensation to write about any specific stock, style, or theme.

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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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