ETF & Mutual Fund Rankings: Small Cap Value Style

The Small Cap Value style ranks eighth out of the twelve fund styles as detailed in our 3Q19 Style Ratings for ETFs and Mutual Funds report. Last quarter, the Small Cap Value style ranked ninth. It gets our Neutral rating, which is based on an aggregation of ratings of 18 ETFs and 211 mutual funds in the Small Cap Value style as of July 15, 2019. See a recap of our 2Q19 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 Value style ETFs and mutual funds are created the same. The number of holdings varies widely (from 22 to 1535). This variation creates drastically different investment implications and, therefore, ratings.

Get the best fundamental research

Investors seeking exposure to the Small Cap Value 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				
JKL	20%	38%	33%	**Attractive**
MDYV	18%	40%	39%	**Neutral**
IVOV	18%	40%	38%	**Neutral**
VTWV	12%	30%	43%	**Neutral**
IJJ	18%	40%	39%	**Neutral**
Worst ETFs				
IWN	12%	30%	44%	**Neutral**
IJS	11%	36%	44%	**Neutral**
XSLV	11%	37%	42%	**Neutral**
RWJ	10%	37%	44%	**Unattractive**
RZV	10%	37%	42%	**Unattractive**

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

Sources: New Constructs, LLC and company filings

Opus Small Cap Value Plus ETF (OSCV) and First Trust Mid Cap Value AlphaDEX Fund (FNK) 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] This paper compares our analytics on a mega cap company to other major providers. The Appendix details exactly how we stack up.

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

Ticker	Allocation of Mutual Fund Holdings: Attractive-or-better Stocks	Neutral Stocks	Unattractive-or-worse Stocks	Predictive Rating
Best Mutual Funds				
RSEIX	26%	40%	4%	Attractive
RYSEX	26%	40%	4%	Attractive
RSEFX	26%	40%	4%	Attractive
RSQCX	26%	40%	4%	Attractive
LSVQX	22%	45%	21%	Attractive
Worst Mutual Funds				
PSLMX	12%	27%	37%	Very Unattractive
PSLAX	12%	27%	37%	Very Unattractive
PGISX	8%	23%	49%	Very Unattractive
PGSCX	8%	23%	49%	Very Unattractive
PASMX	8%	23%	49%	Very Unattractive

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

Sources: New Constructs, LLC and company filings

Advisor Series O'Shaughnessy Small Cap Value Fund (OFSIX) is excluded from Figure 2 because its total net assets (TNA) are below $100 million and do not meet our liquidity minimums.

iShares Morningstar Small Cap Value ETF (JKL) is the top-rated Small Cap Value ETF and Royce Special Equity Fund (RSEIX) is the top-rated Small Cap Value mutual fund. Both earn an Attractive rating.

Invesco S&P Small Cap 600 Pure Value ETF (RZV) is the worst rated Small Cap Value ETF and Pacific Advisors Small Cap Value Fund (PASMX) is the worst rated Small Cap Value mutual fund. RZV earns an Unattractive rating and PASMX earns a Very Unattractive rating.

The Danger Within

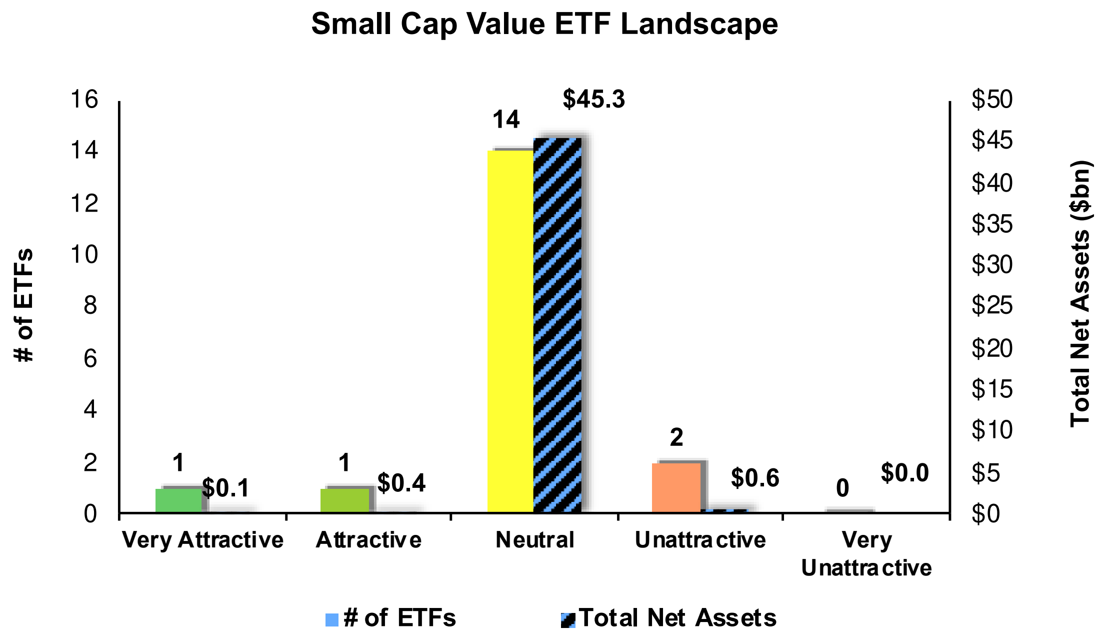
Buying a fund without analyzing its holdings is like buying a stock without analyzing its business and finances. Put another way, research on fund holdings is necessary due diligence because a fund's performance is only as good as its holdings' performance. Don't just take our word for it, see what Barron's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

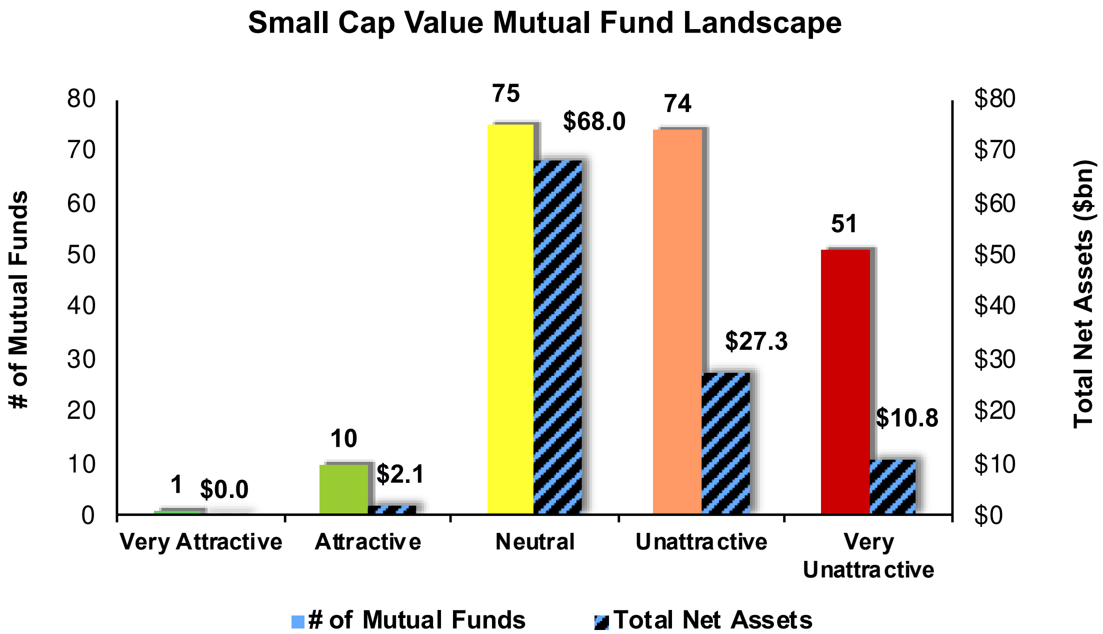
Figures 3 and 4 show the rating landscape of all Small Cap Value ETFs and mutual funds.

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

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Ratings & screeners on 3000 stocks, 450 ETFs and 7000 mutual funds help you make prudent investment decisions.

New Constructs leverages the latest in machine learning to analyze structured and unstructured financial data with unrivaled speed and accuracy. The firm's forensic accounting experts work alongside engineers to develop proprietary NLP libraries and financial models. Our investment ratings are based on the best fundamental data in the business for stocks, ETFs and mutual funds. Clients include many of the top hedge funds, mutual funds and wealth management firms. David Trainer, the firm's CEO, is regularly featured in the media as a thought leader on the fiduciary duty of care, earnings quality, valuation and investment strategy.

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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