ETF & Mutual Fund Rankings: Small Cap Value Style

The Small Cap Value style ranks tenth out of the twelve fund styles as detailed in our 4Q19 Style Ratings for ETFs and Mutual Funds report. Last quarter, the Small Cap Value style ranked eighth. It gets our Unattractive rating, which is based on an aggregation of ratings of 19 ETFs and 212 mutual funds in the Small Cap Value style as of October 18, 2019. See a recap of our 3Q19 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 21 to 1616). 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[1] empowers our unique ETF and mutual fund rating methodology, which leverages our rigorous analysis of each fund's holdings.[2] Only our research utilizes the superior data and earnings adjustments featured by the HBS & MIT Sloan paper, "Core Earnings: New Data and Evidence." 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	27%	38%	28%	**Neutral**
IVOV	27%	38%	34%	**Neutral**
IJJ	26%	38%	34%	**Neutral**
SLYV	18%	35%	40%	**Neutral**
VIOV	16%	34%	40%	**Neutral**
Worst ETFs				
IWN	16%	34%	36%	**Unattractive**
XSLV	12%	44%	34%	**Unattractive**
RWJ	14%	36%	44%	**Unattractive**
VTWV	16%	33%	36%	**Unattractive**
RZV	15%	35%	42%	**Unattractive**

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

Sources: New Constructs, LLC and company filings

Six ETFs (WBIB, FNK, BUY, BUYN, XSVM, FYT) 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

	Allocation of Mutual Fund Holdings			
Ticker	**Attractive-or-better Stocks**	**Neutral Stocks**	**Unattractive-or-worse Stocks**	**Predictive Rating**
Best Mutual Funds				
LMVOX	31%	30%	19%	Attractive
LMVWX	31%	30%	19%	Attractive
LFSFX	31%	30%	19%	Attractive
LMVVX	31%	30%	19%	Attractive
LMVYX	31%	30%	19%	Attractive
Worst Mutual Funds				
PASMX	23%	21%	39%	Very Unattractive
PSLBX	28%	19%	29%	Very Unattractive
PSLMX	28%	19%	29%	Very Unattractive
PSLAX	28%	19%	29%	Very Unattractive
PEVAX	11%	11%	14%	Very Unattractive

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

Sources: New Constructs, LLC and company filings

Advisors 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 Lord Abbett Focused Small Cap Value Fund (LMVOX) is the top-rated Small Cap Value mutual fund. JKL earns a Neutral rating and LMVOX earns an Attractive rating.

Invesco S&P Small Cap 600 Pure Value ETF (RZV) is the worst rated Small Cap Value ETF and PACE Small/Medium Company 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

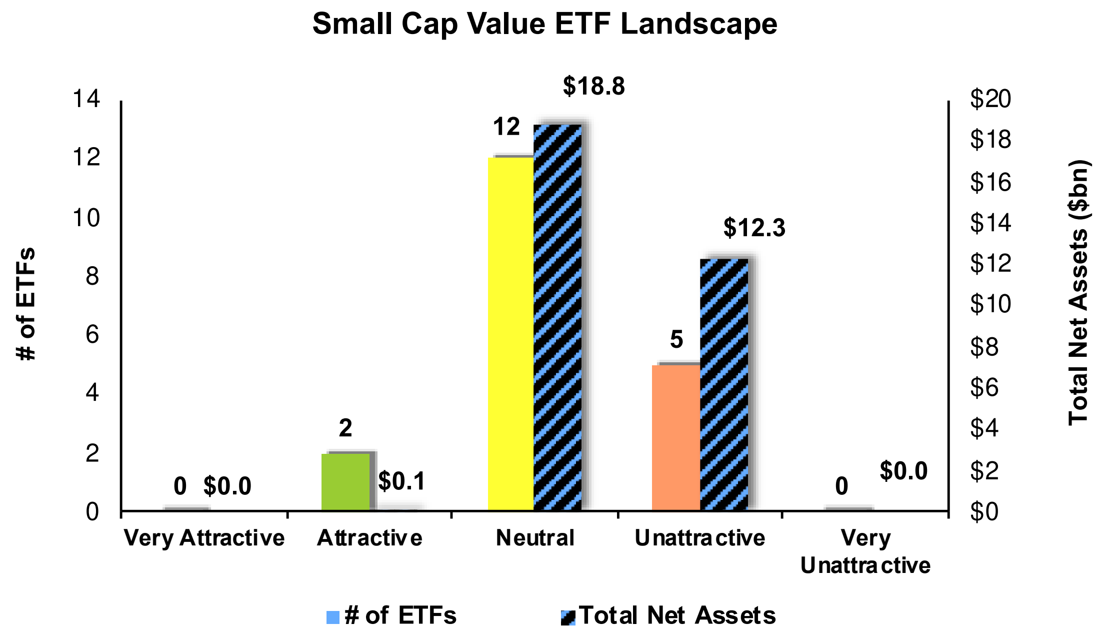
Buying a fund without analyzing its holdings is like buying a stock without analyzing its business and finances. Put another way, research on fund holdings is necessary due diligence because a fund's performance is only as good as its holdings' performance. Don't just take our word for it, see what Barron's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

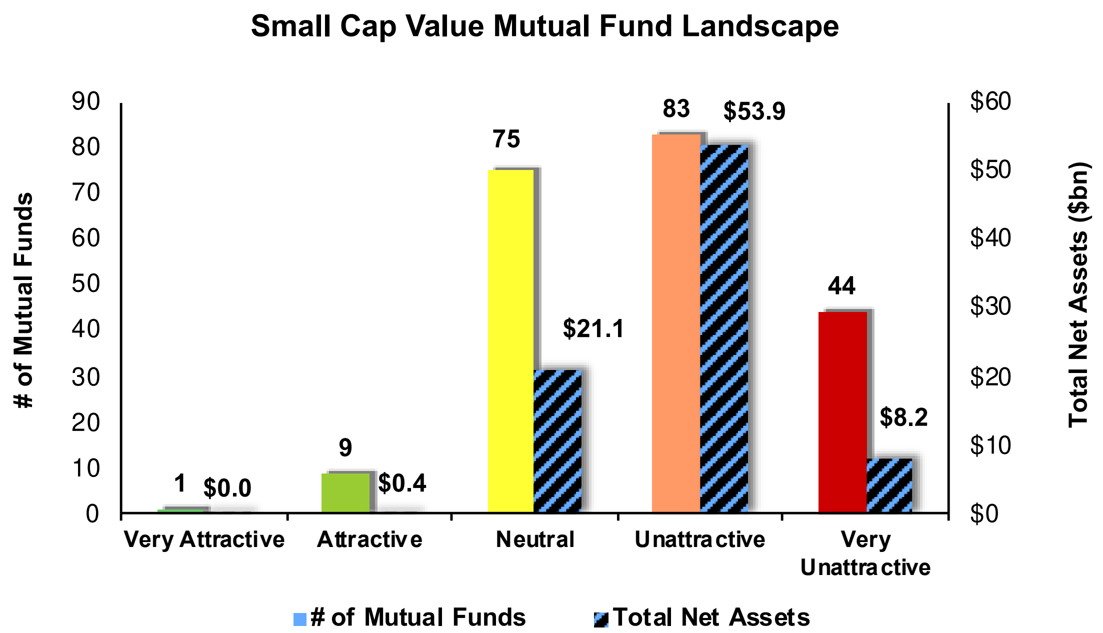
Figures 3 and 4 show the rating landscape of all Small Cap Value ETFs and mutual funds.

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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Footnotes adjustments matter. We are the ONLY source.

We provide ratings, models, reports & screeners on U.S. 3,000 stocks, 700 ETFs and 7,000 mutual funds.

HBS & MIT Sloan research reveals that:

- **Markets are inefficiently assessing earnings because no one reads the footnotes.**
- **Our technology brings the material footnotes data to market for the first time ever.**

Combining human expertise with NLP/ML/AI technologies (featured by Harvard Business School), we shine a light in the dark corners (e.g. footnotes) of hundreds of thousands of financial filings to unearth critical details.

The HBS & MIT Sloan paper, Core Earnings: New Data and Evidence, shows how our superior data drives uniquely comprehensive and independent debt and equity research.

This paper compares our analytics on a mega cap company to other major providers. The Appendix details exactly how we stack up.

Quotes from HBS & MIT Sloan professors on our research:

Get better research:

"…the NC dataset provides a novel opportunity to study the properties of non-operating items disclosed in 10-Ks, and to examine the extent to which the market impounds their implications." – page 19

Pick better stocks:

"Trading strategies that exploit cross-sectional differences in firms' transitory earnings produce abnormal returns of 7-to-10% per year." – Abstract

Avoid losses from using other firms' data:

"…many of the income-statement-relevant quantitative disclosures collected by NC do not appear to be easily identifiable in Compustat…" – page 13

Build better models:

"Core Earnings [calculated using New Constructs' novel dataset] provides predictive power for various measures of one-year-ahead performance…that is incremental to their current-period counterparts." – page 3-4

Exploit market inefficiencies:

"These results suggest that the adjustments made by analysts to better capture core earnings are incomplete, and that the non-core items identified by NC produce a measure of core earnings that is incremental to alternative measures of operating performance in predicting an array of future income measures." – page 26

Fulfill fiduciary duties:

"An appropriate measure of accounting performance for purposes of forecasting future performance requires detailed analysis of all quantitative performance disclosures detailed in the annual report, including those reported only in the footnotes and in the MD&A." – page 31

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