Investment Style Ratings for ETFs, Mutual Funds & Stocks

At the beginning of the first quarter of 2020 only the All Cap Value, Large Cap Value, and Large Cap Blend styles earn Attractive-or-better ratings. Our style ratings are based on the normalized aggregation of our fund ratings for every ETF and mutual fund in each style. Our fund ratings are based on aggregations of the ratings of the stocks they hold. See last quarter's Style Ratings here.

Investors looking for style funds that hold quality stocks should look no further than the All Cap Value and Large Cap Value styles. These styles house a large portion of the highest rated funds. Figures 4 through 7 provide more details. The primary driver behind an Attractive fund rating is good portfolio management, or good stock picking, with low total annual costs.

Attractive-or-better ratings do not always correlate with Attractive-or-better total annual costs. This fact underscores that (1) cheap funds can dupe investors and (2) investors should invest only in funds with good stocks and low fees.

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."

See Figures 4 through 13 for a detailed breakdown of ratings distributions by investment style. See our ETF & mutual fund screener for rankings, ratings and reports on 6800+ mutual funds and 400+ ETFs. Our fund rating methodology is detailed here.

All of our reports on the best & worst ETFs and mutual funds in every investment style are available here.

Figure 1: Ratings for All Investment Styles

Style	Overall Rating
Small Cap Growth	Very Unattractive
Mid Cap Growth	Unattractive
All Cap Growth	Unattractive
Small Cap Blend	Neutral
Mid Cap Value	Neutral
Small Cap Value	Neutral
Large Cap Growth	Neutral
Mid Cap Blend	Neutral
All Cap Blend	Neutral
Large Cap Blend	Attractive
Large Cap Value	Attractive
All Cap Value	Very Attractive

Source: New Constructs, LLC and company filings

To earn an Attractive-or-better Predictive Rating, an ETF or mutual fund must have high-quality holdings and low costs. Only the top 30% of all ETFs and mutual funds earn our Attractive or better rating.

Deutsche DWS CROCI U.S. Fund (DCURX) is the top rated All Cap Value fund. It gets our Very Attractive rating

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

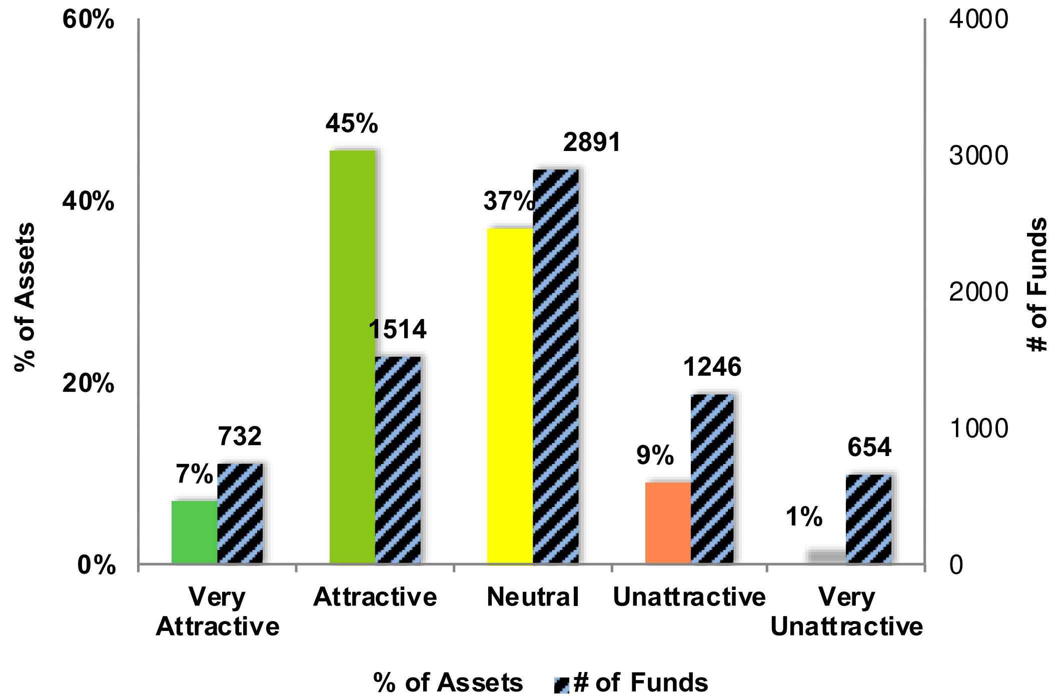
[2] This paper compares our analytics on a mega cap company to other major providers. The Appendix details exactly how we stack up.

by allocating over 49% of its value to Attractive-or-better-rated stocks.

PACE Small/Medium Co Growth Equity Investments (PQUAX) is the worst rated Small Cap Growth fund. It gets our Very Unattractive rating by allocating over 16% of its value to Unattractive-or-worse-rated stocks. Making matters worse, it charges investors total annual costs of 4.16%.

Figure 2 shows the distribution of our Predictive Ratings for all investment style ETFs and mutual funds.

Figure 2: Distribution of ETFs & Mutual Funds (Assets and Count) by Predictive Rating



Source: New Constructs, LLC and company filings

Figure 3 offers additional details on the quality of the investment style funds. Note that the average total annual cost of Very Unattractive funds is almost five times that of Very Attractive funds.

Figure 3: Predictive Rating Distribution Stats

	Very Attractive	Attractive	Neutral	Unattractive	Very Unattractive
# of ETFs & Funds	732	1514	2891	1246	654
% of ETFs & Funds	10%	22%	41%	18%	9%
% of TNA	7%	45%	37%	9%	1%
Avg TAC	0.51%	0.22%	0.91%	1.70%	2.42%

* Avg TAC = Weighted Average Total Annual Costs

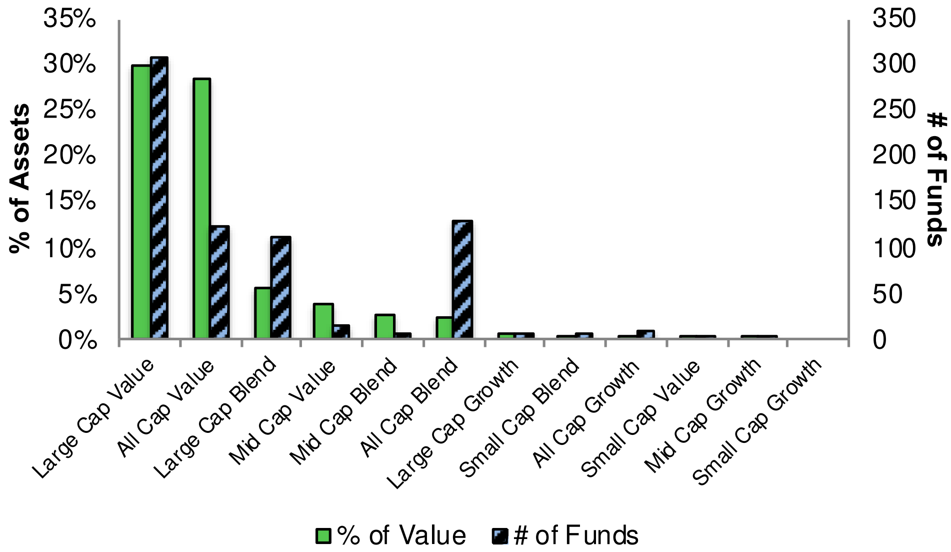
Source: New Constructs, LLC and company filings

This table shows that only the best of the best funds get our Very Attractive Rating: they must hold good stocks AND have low costs. Investors deserve to have the best of both and we are here to give it to them.

Ratings by Investment Style

Figure 4 presents a mapping of Very Attractive funds by investment style. The chart shows the number of Very Attractive funds in each style and the percentage of assets allocated to Very Attractive-rated funds.

Figure 4: Very Attractive ETFs & Mutual Funds by Investment Style



Source: New Constructs, LLC and company filings

Figure 5 presents the data charted in Figure 4.

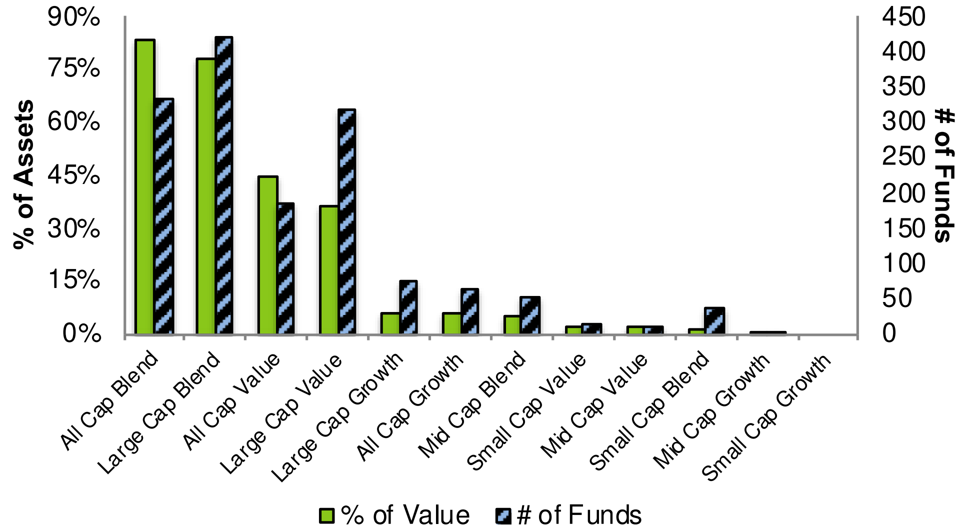
Figure 5: Very Attractive ETFs & Mutual Funds by Investment Style

Style	% of Style Assets	# of Very Attractive Funds	% of Very Attractive Funds in Style
Large Cap Value	30%	309	33%
All Cap Value	29%	124	25%
Large Cap Blend	6%	113	15%
Mid Cap Value	4%	17	10%
Mid Cap Blend	3%	8	2%
All Cap Blend	2%	131	14%
Large Cap Growth	1%	8	1%
Small Cap Blend	0%	6	1%
All Cap Growth	0%	10	2%
Small Cap Value	0%	1	0%
Mid Cap Growth	0%	5	1%
Small Cap Growth	0%	0	0%

Source: New Constructs, LLC and company filings

Figure 6 presents a mapping of Attractive funds by investment style. The chart shows the number of Attractive funds in each style and the percentage of assets allocated to Attractive-rated funds.

Figure 6: Attractive ETFs & Mutual Funds by Investment Style



Source: New Constructs, LLC and company filings

Figure 7 presents the data charted in Figure 6.

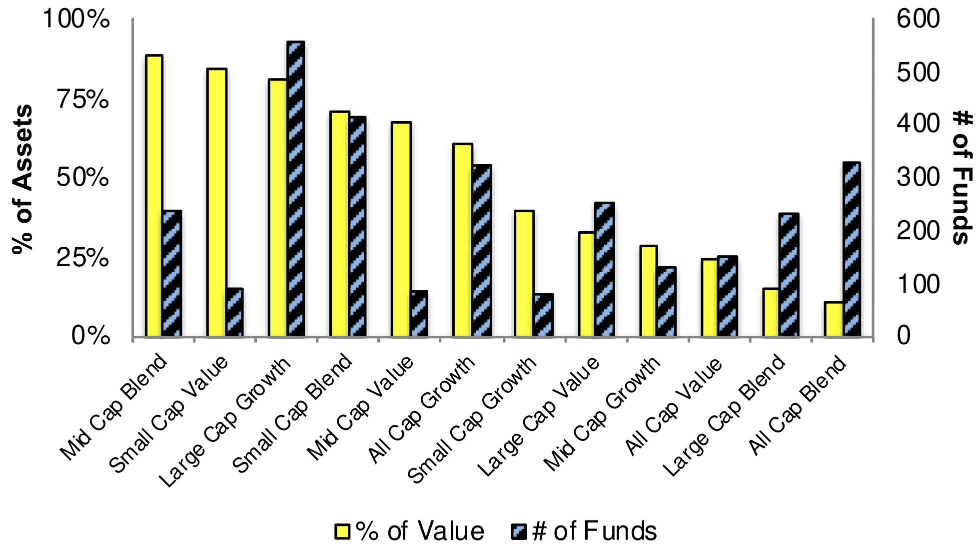
Figure 7: Attractive ETFs & Mutual Funds by Investment Style

Style	% of Style Assets	# of Attractive Funds	% of Attractive Funds in Style
All Cap Blend	83%	333	35%
Large Cap Blend	78%	420	54%
All Cap Value	45%	185	38%
Large Cap Value	36%	317	34%
Large Cap Growth	6%	76	11%
All Cap Growth	6%	65	11%
Mid Cap Blend	5%	52	14%
Small Cap Value	2%	16	7%
Mid Cap Value	2%	10	6%
Small Cap Blend	1%	36	4%
Mid Cap Growth	0%	4	1%
Small Cap Growth	0%	0	0%

Source: New Constructs, LLC and company filings

Figure 8 presents a mapping of Neutral funds by investment style. The chart shows the number of Neutral funds in each style and the percentage of assets allocated to Neutral-rated funds.

Figure 8: Neutral ETFs & Mutual Funds by Investment Style



Source: New Constructs, LLC and company filings

Figure 9 presents the data charted in Figure 8.

Figure 9: Neutral ETFs & Mutual Funds by Investment Style

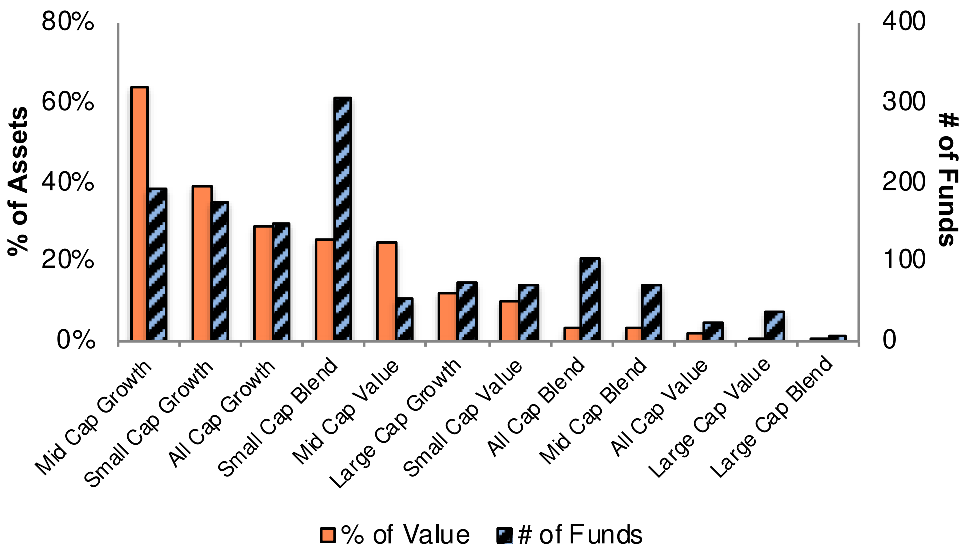
Style	% of Style Assets	# of Neutral Funds	% of Neutral Funds in Style
Mid Cap Blend	89%	240	63%
Small Cap Value	85%	92	42%
Large Cap Growth	81%	556	78%
Small Cap Blend	71%	414	48%
Mid Cap Value	68%	85	50%
All Cap Growth	61%	324	55%
Small Cap Growth	40%	82	15%
Large Cap Value	33%	253	27%
Mid Cap Growth	28%	131	33%
All Cap Value	25%	153	31%
Large Cap Blend	15%	232	30%
All Cap Blend	11%	329	35%

Source: New Constructs, LLC and company filings

Figure 10 presents a mapping of Unattractive funds by investment style. The chart shows the number of Unattractive funds in each style and the percentage of assets allocated to Unattractive-rated funds.

The landscape of style ETFs and mutual funds is littered with Unattractive funds. Investors in Mid Cap Growth have put over 64% of their assets in Unattractive-rated funds.

Figure 10: Unattractive ETFs & Mutual Funds by Investment Style



Source: New Constructs, LLC and company filings

Figure 11 presents the data charted in Figure 10.

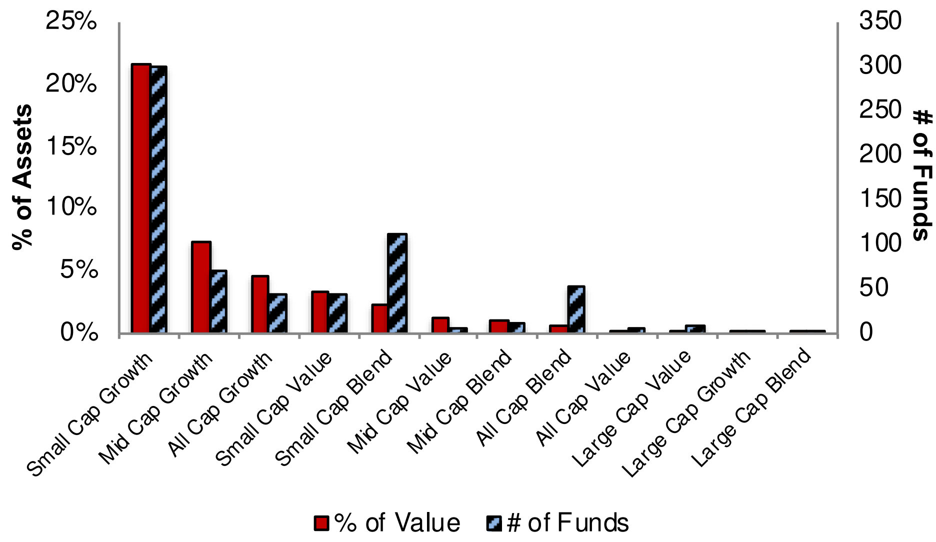
Figure 11: Unattractive ETFs & Mutual Funds by Investment Style

Style	% of Style Assets	# of Unattractive Funds	% of Unattractive Funds in Style
Mid Cap Growth	64%	192	48%
Small Cap Growth	39%	172	31%
All Cap Growth	29%	148	25%
Small Cap Blend	26%	303	35%
Mid Cap Value	25%	53	31%
Large Cap Growth	12%	72	10%
Small Cap Value	10%	70	32%
All Cap Blend	3%	103	11%
Mid Cap Blend	3%	68	18%
All Cap Value	2%	23	5%
Large Cap Value	1%	36	4%
Large Cap Blend	1%	6	1%

Source: New Constructs, LLC and company filings

Figure 12 presents a mapping of Very Unattractive funds by investment style. The chart shows the number of Very Unattractive funds in each style and the percentage of assets allocated to Very Unattractive-rated funds.

Figure 12: Very Unattractive ETFs & Mutual Funds by Investment Style



Source: New Constructs, LLC and company filings

Figure 13 presents the data charted in Figure 12.

Figure 13: Very Unattractive ETFs & Mutual Funds by Investment Style

Style	% of Style Assets	# of Very Unattractive Funds	% of Very Unattractive Funds in Style
Small Cap Growth	21%	299	54%
Mid Cap Growth	7%	69	17%
All Cap Growth	5%	43	7%
Small Cap Value	3%	42	19%
Small Cap Blend	2%	112	13%
Mid Cap Value	1%	6	4%
Mid Cap Blend	1%	11	3%
All Cap Blend	1%	52	5%
All Cap Value	0%	6	1%
Large Cap Value	0%	9	1%
Large Cap Growth	0%	3	0%
Large Cap Blend	0%	2	0%

Source: New Constructs, LLC and company filings

This article originally published on January 21, 2020.

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

Follow us on Twitter, Facebook, LinkedIn, and StockTwits for real-time alerts on all our research.

Appendix: Predictive Fund Rating System

New Constructs' Predictive fund Ratings enable smarter investing by assessing the key drivers of future fund performance. We start by analyzing every funds' holdings based on New Constructs' stock ratings, which are regularly featured as among the best by Barron's. Next, we measure and rank the all-in fund expenses. Finally, we rank the fund compared to all other funds to identify the best and worst funds in the market.

Intuitively, there are two drivers for future fund performance.

1. Stock-picking (Portfolio Management Rating) and
2. Fund expenses (Total Annual Costs Rating)

Our Predictive Fund Rating is based on these drivers and the fund's ranking:

1. Top 10% = Very Attractive Rating
2. Next 20% = Attractive Rating
3. Next 40% = Neutral Rating
4. Next 20% = Unattractive Rating
5. Bottom 10% = Very Unattractive Rating

The figure below details the criteria that drive our Predictive Rating system for funds. The two drivers of our predictive ratings system are Portfolio Management and Total Annual Costs. The Portfolio Management ratings (detail here) is the same as our Stock Rating (detail here) except that we incorporate Asset Allocation (details here). The Total Annual Costs Ratings (details here) captures the all-in costs of being in a fund over a 3-year holding period, the average period for all mutual funds.

Predictive Rating	Portfolio Management Rating						Total Annual Costs
	Business Strength		Valuation			Cash Allocation	
	Quality of Earnings	Return on Invested Capital	FCF Yield	Price to Economic Book Value	Market-Implied Duration of Growth		
Very Unattractive	Misleading Trend	Bottom Quintile	< -5%	>3.5 or -1<0	> 50	> 20%	> 4 %
Unattractive	False Positive	4th Quintile	-5% < -1%	2.4<3.5 or <-1	20 < 50	8% < 20%	2% < 4%
Neutral	Neutral EE	3rd Quintile	-1% < 3%	1.6 < 2.4	10 < 20	2.5% < 8%	1% < 2%
Attractive	Positive EE	2nd Quintile	3% < 10%	1.1 < 1.6	3 < 10	1% < 2.5%	0.5% < 1%
Very Attractive	Rising EE	Top Quintile	> 10%	0 < 1.1	0 < 3	<1%	< 0.5%

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.**
- **Corporate managers hide gains/losses in footnotes to manage earnings.**
- **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.

Learn more.

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 20

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 14

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 4

Exploit market inefficiencies:

"These results … suggest that the adjustments made by analysts and Compustat to better capture core earnings are incomplete. Moreover, 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 33-34

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