



How to Avoid the Worst Style ETFs

Question: Why are there so many ETFs?

Answer: ETF providers tend to make lots of money on each ETF so they create more products to sell.

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The large number of ETFs has little to do with serving your best interests. Only our research utilizes the superior data and earnings adjustments featured by the Harvard Business School and MIT Sloan paper, "[Core Earnings: New Data and Evidence](#)." We leverage this data to identify three red flags you can use to avoid the worst ETFs:

1. Inadequate Liquidity

This issue is the easiest issue to avoid, and our advice is simple. Avoid all ETFs with less than \$100 million in assets. Low levels of liquidity can lead to a discrepancy between the price of the ETF and the underlying value of the securities it holds. Plus, low asset levels tend to mean lower volume in the ETF and larger bid-ask spreads.

2. High Fees

ETFs should be cheap, but not all of them are. The first step here is to know what is cheap and expensive.

To ensure you are paying at or below average fees, invest only in ETFs with [total annual costs](#) below 0.41%, which is the average total annual cost of the 476 U.S. equity Style ETFs we cover. The weighted average is lower at 0.13%, which highlights how investors tend to put their [money in ETFs with low fees](#).

Figure 1 shows HCM Defender 100 Index ETF (QQH) is the most expensive style ETF and JPMorgan BetaBuilders U.S. Equity ETF (BBUS) is the least expensive. Absolute Shares (WBIL, WBIF, WBIE) provides three of the most expensive ETFs while State Street (SPTM, SPLG) ETFs are among the cheapest.

Figure 1: 5 Most and Least Expensive Style ETFs

Ticker	Name	Style	Total Annual Cost
Most Expensive			
QQH	HCM Defender 100 Index	Large Cap Blend	1.52%
LGH	HCM Defender 500 Index	Large Cap Blend	1.52%
WBIL	Absolute Shares WBI BullBear Quality 3000	All Cap Blend	1.35%
WBIF	Absolute Shares WBI BullBear Value 3000	All Cap Blend	1.31%
WBIE	Absolute Shares WBI BullBear Rising Income 3000	All Cap Blend	1.26%
Least Expensive			
BBUS	JPMorgan BetaBuilders U.S. Equity ETF	Large Cap Blend	0.02%
SPTM	State Street SPDR S&P 1500 Composite Stock Market	All Cap Blend	0.03%
SPLG	State Street SPDR Portfolio S&P 500	Large Cap Blend	0.03%
VOO	Vanguard 500 Index Fund	Large Cap Blend	0.03%
IVV	iShares U.S. Core S&P 500	Large Cap Blend	0.03%

Sources: New Constructs, LLC and company filings

Investors need not pay high fees for quality holdings.¹ State Street SPDR S&P 1500 Composite Stock Market (SPTM) is the highest ranked of the least expensive style ETFs in Figure 1. SPTM's Neutral [Portfolio](#)

¹ This [paper](#) compares our analytics on a mega cap company to Bloomberg and Capital IQ (SPGI) in a detailed appendix.



[Management rating](#) and 0.03% total annual cost earn it an Attractive rating.² VictoryShares U.S. Multi-Factor Minimum Volatility ETF (VSMV) is the best ranked style ETF overall. VSMV's Very Attractive Portfolio Management rating and 0.39% total annual cost earn it a Very Attractive rating.

On the other hand, JPMorgan BetaBuilders U.S. Equity ETF (BBUS) holds poor stocks and earns our Neutral rating, yet has low total annual costs of 0.02 %. No matter how cheap an ETF, if it holds bad stocks, its performance will be bad. The quality of an ETF's holdings matters more than its price.

3. Poor Holdings

Avoiding poor holdings is by far the hardest part of avoiding bad ETFs, but it is also the most important because an ETF's performance is determined more by its holdings than its costs. Figure 2 shows the ETFs within each style with the worst holdings or [portfolio management ratings](#).

Figure 2: Style ETFs with the Worst Holdings

Ticker	Name	Style	Portfolio Management Rating
SLT	Pacer Funds Salt High truBeta U.S. Market ETF	All Cap Blend	Unattractive
FPX	First Trust U.S. Equity Opportunities ETF	All Cap Growth	Unattractive
CLRG	IndexIQ Chaikin U.S. Large Cap ETF	All Cap Value	Unattractive
BBUS	JPMorgan BetaBuilders U.S. Equity ETF	Large Cap Blend	Neutral
DWEQ	AdvisorShares Dorsey Wright Alpha Equal Weight ETF	Large Cap Growth	Unattractive
SPYD	State Street SPDR S&P 500 High Dividend ETF	Large Cap Value	Unattractive
RYJ	Invesco Raymond James SB-1 Equity ETF	Mid Cap Blend	Unattractive
BOSS	Global X Founder-Run Companies ETF	Mid Cap Growth	Unattractive
NUMV	Nuveen ESG Mid Cap Value ETF	Mid Cap Value	Unattractive
SCHA	Schwab U.S. Small Cap ETF	Small Cap Blend	Unattractive
JKK	iShares Morningstar Small Cap Growth ETF	Small Cap Growth	Unattractive
SMLV	State Street SPDR SSGA U.S. Small Cap Low Volatility	Small Cap Value	Unattractive

Sources: New Constructs, LLC and company filings

State Street (SPYD, SMLV) appears more often than any other providers in Figure 2, which means that they offer the most ETFs with the worst holdings.

First Trust U.S. Equity Opportunities ETF (FPX) is the worst rated ETF in Figure 2. iShares Morningstar Small Cap Growth ETF (JKK) also earns a Very Unattractive [predictive overall rating](#), which means not only do they hold poor stocks, they charge high total annual costs.

Our [overall ratings on ETFs](#) are based on our [stock ratings](#) of their holdings and the total annual costs of investing in the ETF.

The Danger Within

Buying an ETF without analyzing its holdings is like buying a stock without analyzing its business and finances. Put another way, research on ETF holdings is necessary due diligence because an ETF'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 ETF'S HOLDINGS = PERFORMANCE OF ETF

² Harvard Business School features the powerful impact of our research automation technology in the case [New Constructs: Disrupting Fundamental Analysis with Robo-Analysts](#).



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.

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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.**
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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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