Investment Style Ratings for ETFs, Mutual Funds & Stocks

At the beginning of the first quarter of 2021, only the Large Cap Value, Large Cap Blend, and All 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 Large Cap Value, Large Cap Blend, and All Cap Blend 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.

The best fundamental data in the world, proven in The Journal of Financial Economics, drives our research. 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]

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 7000+ mutual funds and 700+ 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
Large Cap Value	Very Attractive
Large Cap Blend	Attractive
All Cap Blend	Attractive
All Cap Value	Neutral
Large Cap Growth	Neutral
Mid Cap Blend	Neutral
Mid Cap Value	Neutral
Small Cap Value	Neutral
All Cap Growth	Neutral
Small Cap Blend	Unattractive
Mid Cap Growth	Unattractive
Small Cap Growth	Very Unattractive

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.

Ariel Investment Global Fund (AGLYX) is the top-rated Large 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.

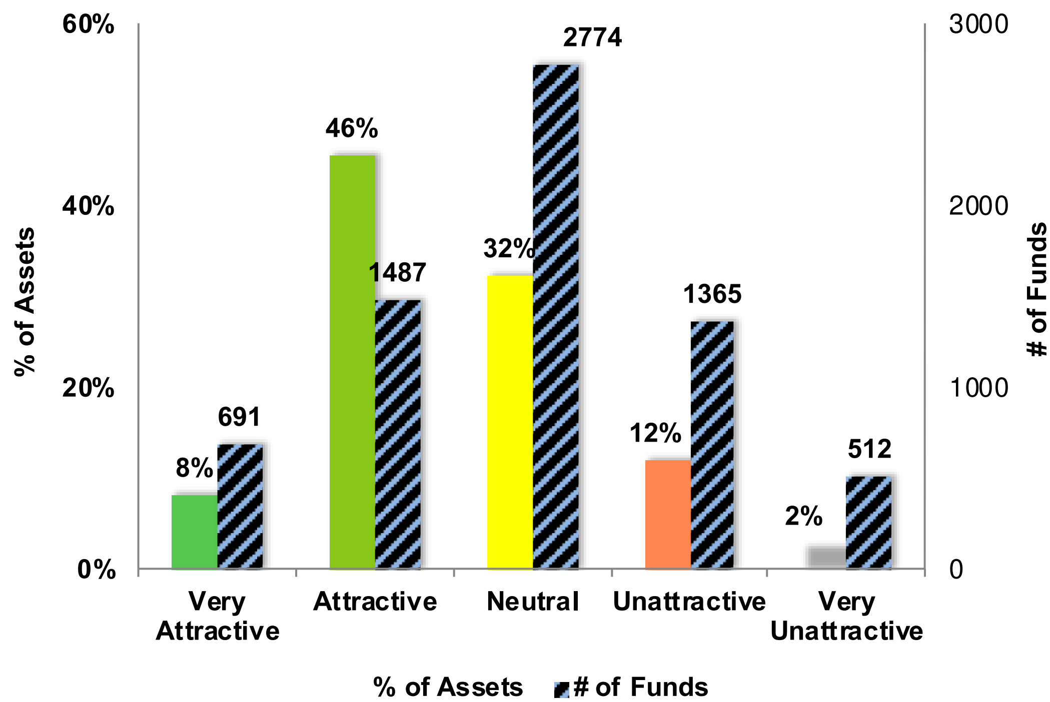
[2] See how our models and financial ratios are superior to Bloomberg and Capital IQ's (SPGI) analytics in the detailed appendix of this paper.

by allocating over 44% of its value to Attractive-or-better-rated stocks.

Dunham Small Cap Growth Fund (DADGX) is the worst rated Small Cap Growth fund. It gets our Very Unattractive rating by allocating over 53% of its value to Unattractive-or-worse-rated stocks. Making matters worse, it charges investors total annual costs of 5.6%.

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 four times that of Very Attractive funds.

Figure 3: Predictive Rating Distribution Stats

	Very Attractive	Attractive	Neutral	Unattractive	Very Unattractive
# of ETFs & Funds	691	1487	2774	1365	512
% of ETFs & Funds	10%	22%	41%	20%	7%
% of TNA	8%	46%	32%	12%	2%
Avg TAC	0.48%	0.25%	1.03%	1.19%	1.85%

* Avg TAC = Weighted Average Total Annual Costs

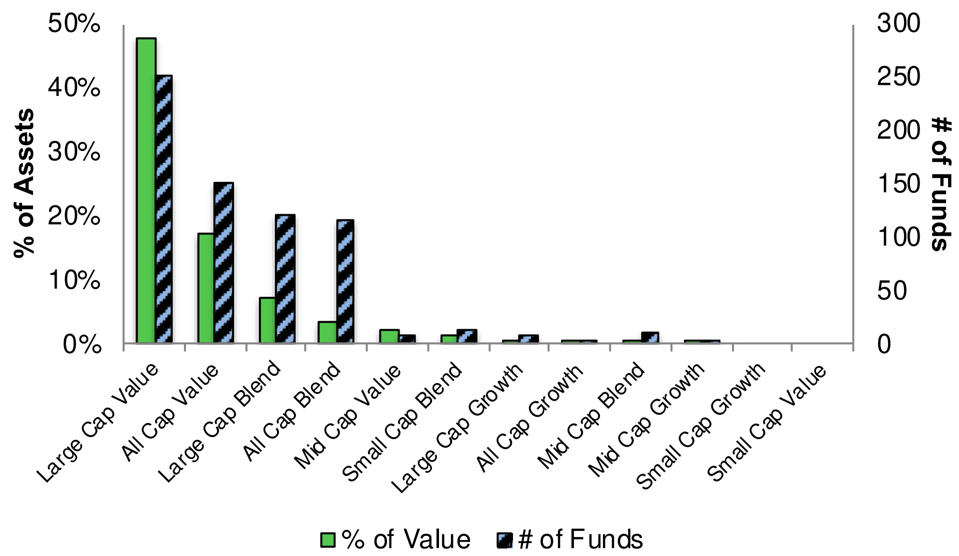
Source: New Constructs, LLC and company filings

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.

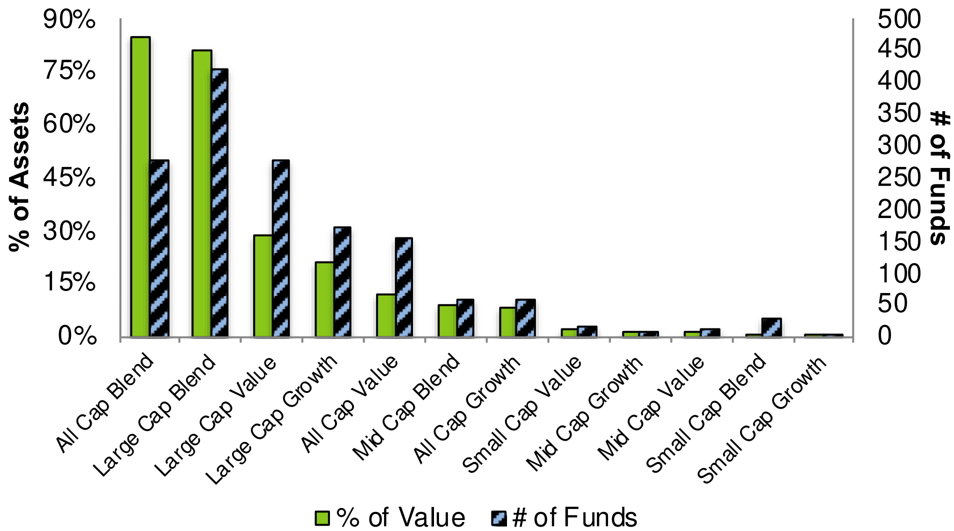
Figure 5: Very Attractive ETFs & Mutual Funds by Investment Style

Style	% of Style Assets	# of Very Attractive Funds	% of Very Attractive Funds in Style
Large Cap Value	48%	252	31%
All Cap Value	17%	152	25%
Large Cap Blend	7%	122	17%
All Cap Blend	4%	117	14%
Mid Cap Value	2%	9	6%
Small Cap Blend	1%	14	2%
Large Cap Growth	1%	9	1%
All Cap Growth	0%	4	1%
Mid Cap Blend	0%	11	3%
Mid Cap Growth	0%	1	0%
Small Cap Growth	0%	0	0%
Small Cap Value	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.

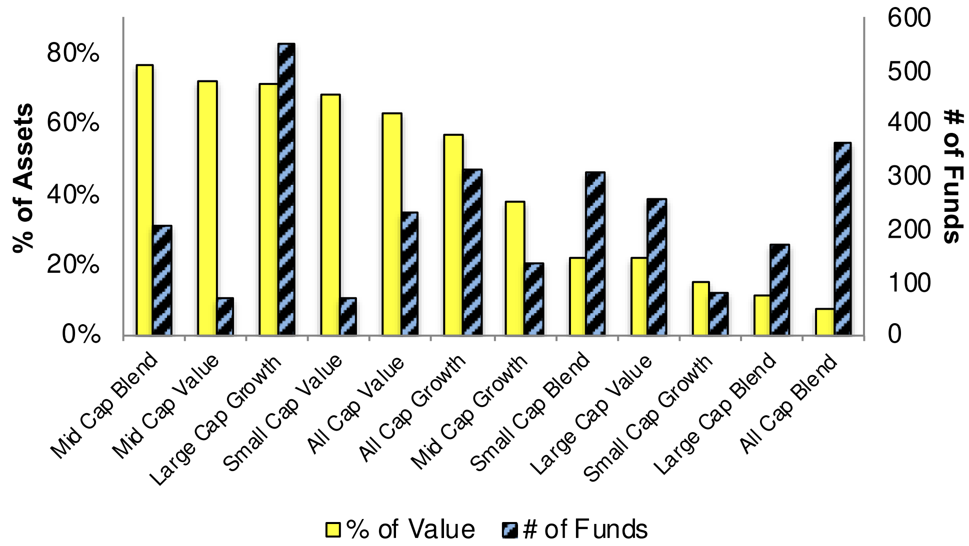
Figure 7: Attractive ETFs & Mutual Funds by Investment Style

Style	% of Style Assets	# of Attractive Funds	% of Attractive Funds in Style
All Cap Blend	85%	279	32%
Large Cap Blend	81%	421	58%
Large Cap Value	28%	277	34%
Large Cap Growth	21%	171	21%
All Cap Value	12%	156	25%
Mid Cap Blend	9%	58	16%
All Cap Growth	8%	58	11%
Small Cap Value	2%	17	9%
Mid Cap Growth	2%	7	2%
Mid Cap Value	1%	11	7%
Small Cap Blend	1%	30	4%
Small Cap Growth	0%	2	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

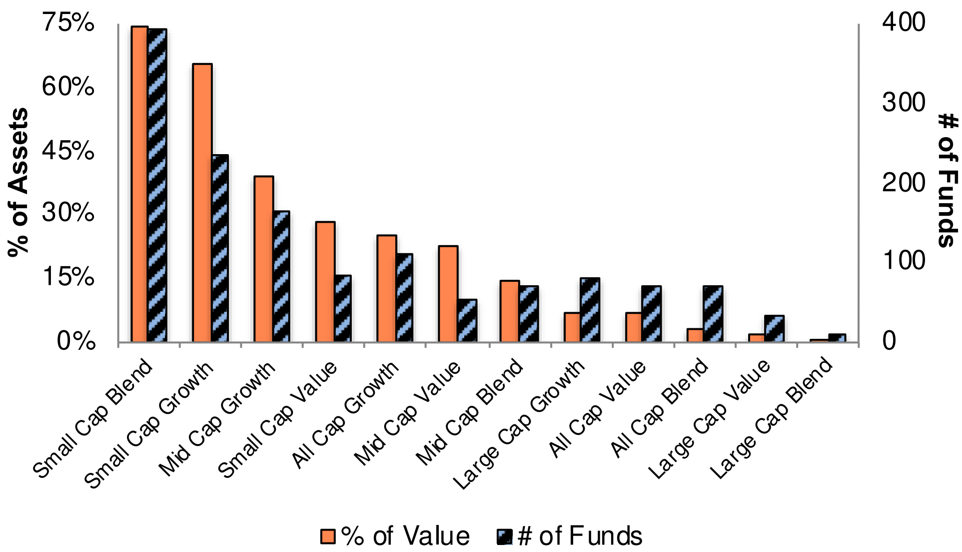
Style	% of Style Assets	# of Neutral Funds	% of Neutral Funds in Style
Mid Cap Blend	76%	210	58%
Mid Cap Value	72%	73	47%
Large Cap Growth	71%	553	68%
Small Cap Value	68%	70	36%
All Cap Value	63%	234	38%
All Cap Growth	57%	313	60%
Mid Cap Growth	38%	137	36%
Small Cap Blend	22%	310	37%
Large Cap Value	22%	259	31%
Small Cap Growth	15%	81	15%
Large Cap Blend	12%	171	24%
All Cap Blend	8%	363	42%

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 Small Cap Blend have put over 74% 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.

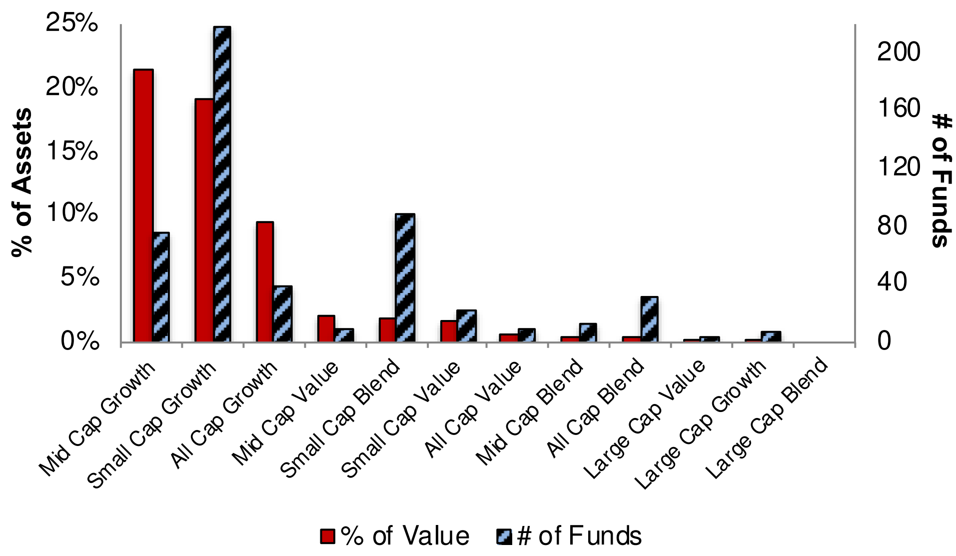
Figure 11: Unattractive ETFs & Mutual Funds by Investment Style

Style	% of Style Assets	# of Unattractive Funds	% of Unattractive Funds in Style
Small Cap Blend	74%	393	47%
Small Cap Growth	66%	234	44%
Mid Cap Growth	39%	164	43%
Small Cap Value	28%	83	43%
All Cap Growth	25%	111	21%
Mid Cap Value	22%	53	34%
Mid Cap Blend	14%	68	19%
Large Cap Growth	7%	79	10%
All Cap Value	7%	69	11%
All Cap Blend	3%	71	8%
Large Cap Value	2%	32	4%
Large Cap Blend	0%	8	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
Mid Cap Growth	21%	75	20%
Small Cap Growth	19%	217	41%
All Cap Growth	9%	38	7%
Mid Cap Value	2%	8	5%
Small Cap Blend	2%	89	11%
Small Cap Value	2%	22	11%
All Cap Value	1%	8	1%
Mid Cap Blend	0%	13	4%
All Cap Blend	0%	31	4%
Large Cap Value	0%	4	0%
Large Cap Growth	0%	7	1%
Large Cap Blend	0%	0	0%

Source: New Constructs, LLC and company filings

This article originally published January 15, 2021.

Disclosure: David Trainer, Kyle Guske II, Alex Sword, 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.

The Journal of Financial Economics 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.

Forthcoming in The Journal of Financial Economics, the HBS & MIT Sloan paper, Core Earnings: New Data and Evidence, proves 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 against Bloomberg & Capital IQ.

Learn more.

Quotes from HBS & MIT Sloan professors on our research:

Superior data:

"[New Constructs'] Total Adjustments differs significantly from the items identified and excluded from Compustat's adjusted earnings measures. For example… 50% to 70% of the variation in Total Adjustments is not explained by IBSPI Adjustments, OIADP Adjustments, or OPE Adjustments individually." — pp. 14, 1st para.

Pick better stocks:

"Trading strategies that exploit non-core earnings produce abnormal returns of 8% per year." – Abstract, 5th sentence

Risks of using legacy data providers:

"we identified cases where Compustat did not collect information relating to firms' income that is useful in assessing core earnings." – pp. 16, 2nd para.

Build better models:

"… the machine [NC's Robo-Analyst technology] learned and replicated human analysts' judgements based on their prior decisions. It did so with greater speed and scale to produce a database covering a broad cross-section of firms." – pp. 9, 2nd para.

Exploit market inefficiencies:

"…analysts and other market participants are slow to impound the implications of the distinction between core and non-core earnings, especially those disclosed from the footnotes section of the 10-K" – pp. 35, 1st para.

Fulfill fiduciary duties:

"These costs [of analyzing footnotes] point to the potential for increasing inequities in the usefulness of financial statements for sophisticated versus unsophisticated investors who differ in their technological capabilities for processing 10-K information" – pp. 35, 2nd para.

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