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.

Learn more about the best fundamental research

The large number of ETFs has little to do with serving your best interests. More reliable & proprietary fundamental data, proven in The Journal of Financial Economics, drives our research and analysis of ETF holdings and provides investors with a new source of alpha. 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 0.43% which is the average total annual cost of the 559 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 Collaborative Investment Trend Aggregation Growth ETF (TAAG) is the most expensive style ETF and JPMorgan BetaBuilders U.S. Equity ETF (BBUS) is the least expensive. Tuttle Tactical Management (TAAG, TADS, TEGS) provides three of the most expensive ETFs while JPMorgan Exchange Traded Fund Trust (BBUS) ETF is the cheapest.

Figure 1: 5 Most and Least Expensive Style ETFs

Ticker	Name	Style	Total Annual Cost
	Most Expensive		
TAAG	Collaborative Investment Trend Aggregation Growth ETF	All Cap Growth	1.89%
TADS	Collaborative Investment Active Dividend Stock ETF	All Cap Value	1.88%
TEGS	Collaborative Investment Trend Aggregation ESG ETF	All Cap Growth	1.60%
WBIF	Absolute Shares WBI BullBear Value 3000 ETF	All Cap Blend	1.39%
WBIL	Absolute Shares WBI BullBear Quality 3000 ETF	All Cap Blend	1.37%
	Least Expensive		
BBUS	JPMorgan BetaBuilders U.S. Equity ETF	Large Cap Blend	0.02%
SYFX	Tidal SoFi Next 500 ETF	Small Cap Growth	0.02%
SPLG	State Street SPDR Portfolio S&P 500 ETF	Large Cap Blend	0.03%
IVV	iShares Core S&P 500 ETF	Large Cap Blend	0.03%
VOO	Vanguard 500 Index Fund	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 Portfolio S&P 500 ETF (SPLG) is the best ranked style ETF in Figure 1. SPLG's Neutral Portfolio Management rating and 0.03% total annual cost earns it an Attractive rating.[2] Global Beta Low Beta ETF (GBLO) is the best ranked style ETF overall. GBLO's Very Attractive Portfolio Management rating and 0.32% total annual cost also earns it a Very Attractive rating.

On the other hand, Tidal SoFi Next 500 ETF (SYFX) holds poor stocks and earns our Unattractive 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 ETFs 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 Salt High truBeta U.S. Market ETF	All Cap Blend	Unattractive
TAAG	Collaborative Investment Trend Aggregation Growth ETF	All Cap Growth	Unattractive
VONV	Vanguard Russell 1000 Value Index Fund	All Cap Value	Unattractive
FLCA	Franklin FTSE Canada ETF	Large Cap Blend	Unattractive
FDG	American Century Focused Dynamic Growth ETF	Large Cap Growth	Unattractive
SPYV	State Street SPDR Portfolio S&P 500 Value ETF	Large Cap Value	Neutral
BBMC	JPMorgan BetaBuilders U.S. Mid Cap Equity ETF	Mid Cap Blend	Unattractive
BOSS	Global X Founder-Run Companies ETF	Mid Cap Growth	Unattractive
NIFE	Direxion Fallen Knives ETF	Mid Cap Value	Unattractive
BKSE	BNY Mellon U.S. Small Cap Core Equity ETF	Small Cap Blend	Unattractive
MFMS	RBB Fund MFAM Small Cap Growth ETF	Small Cap Growth	Unattractive
VTWV	Vanguard Russell 2000 Value Index Fund	Small Cap Value	Unattractive

Sources: New Constructs, LLC and company filings

Vanguard (VONV, VTWV) appears more often than any other providers in Figure 2, which means that it offers the most ETFs with the worst holdings.

Collaborative Investment Trend Aggregation Growth ETF (TAAG) is the worst rated ETF in Figure 2. RBB Fund MFAM Small Cap Growth ETF (MFMS) and Pacer Sale High truBeta U.S. Market ETF (SLT) also earn 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 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 ETFs HOLDINGs = PERFORMANCE OF ETF

[1] Three independent studies from respected institutions prove the superiority of our data, models, and ratings. Learn more here.
[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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Disclosure: David Trainer, Kyle Guske II, and Matt Shuler receive no compensation to write about any specific stock, style, or theme.

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1. Legacy fundamental datasets suffer from significant inaccuracies, omissions and biases.
2. Only our "novel database" enables investors to overcome these flaws and apply reliable fundamental data in their research.
3. Our proprietary measures of Core Earnings and Earnings Distortion materially improve stock picking and forecasting of profits.

Best Fundamental Data in the World

Forthcoming in The Journal of Financial Economics, a top peer-reviewed journal, Core Earnings: New Data & Evidence proves our Robo-Analyst technology overcomes material shortcomings in legacy firms' data collection processes to provide superior fundamental data, earnings models, and research. More details.

Key quotes from the paper:

- "[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 *S&P Global's (SPGI) Adjustments* individually." – pp. 14, 1st para.
- "A final source of differences [between New Constructs' and S&P Global's data] is due to data collection oversights…we identified cases where Compustat did not collect information relating to firms' income that is useful in assessing core earnings." – pp. 16, 2nd para.

Superior Models

A top accounting firm features the superiority of our ROIC, NOPAT and Invested Capital research to Capital IQ & Bloomberg's in Getting ROIC Right. See the Appendix for direct comparison details.

Key quotes from the paper:

- "…an accurate calculation of ROIC requires more diligence than often occurs in some of the common, off-the-shelf ROIC calculations. Only by scouring the footnotes and the MD&A [as New Constructs does] can investors get an accurate calculation of ROIC." – pp. 8, 5th para.
- "The majority of the difference…comes from New Constructs' machine learning approach, which leverages technology to calculate ROIC by applying accounting adjustments that may be buried deeply in the footnotes across thousands of companies." – pp. 4, 2nd para.

Superior Stock Ratings

Robo-Analysts' stock ratings outperform those from human analysts as shown in this paper from Indiana's Kelley School of Business. Bloomberg features the paper here.

Key quotes from the paper:

- "the portfolios formed following the buy recommendations of Robo-Analysts earn abnormal returns that are statistically and economically significant." – pp. 6, 3rd para.
- "Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts." – pp. 20, 3rd para.

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