



How to Avoid the Worst Style ETFs

Question: Why are there so many ETFs?

Answer: ETF issuance is profitable, so Wall Street keeps cranking out more products to sell.

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The large number of ETFs has little to do with serving your best interests as an investor. 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. Small ETFs also generally have lower trading volume, which translates to higher trading costs via larger bid-ask spreads.

2. High Fees

ETFs should be cheap, but not all of them are. The first step is to benchmark what cheap means.

To ensure you are paying at or below average fees, invest only in ETFs with [total annual costs](#) below 0.48% - the average total annual cost of the 701 U.S. equity Style ETFs we cover. The weighted average is lower at 0.14%, which highlights how investors tend to put their [money in ETFs with low fees](#).

Figure 1 shows Emler Alpha Opportunities ETF (EOPS) is the most expensive style ETF and JPMorgan BetaBuilders U.S. Equity ETF (BBUS) is the least expensive. Absolute Shares WBI (WBIL, WBIG, WBIF) provides three of the most expensive ETFs while JPMorgan BetaBuilders U.S. Equity ETF (BBUS) is the cheapest.

Figure 1: 5 Most and Least Expensive Style ETFs

Ticker	Name	Style	Total Annual Cost
Most Expensive			
EOPS	Emler Alpha Opportunities ETF	All Cap Blend	1.96%
LBAY	Leatherback Long/Short Alternative Yield ETF	All Cap Blend	1.60%
WBIL	WBI BullBear Quality 3000 ETF	All Cap Blend	1.39%
WBIG	WBI BullBear Yield 3000 ETF	All Cap Blend	1.39%
WBIF	WBI BullBear Value 3000 ETF	All Cap Blend	1.39%
Least Expensive			
BBUS	JPMorgan BetaBuilders U.S. Equity ETF	Large Cap Blend	0.02%
SFYX	Tidal SoFi Next 500 ETF	Small Cap Growth	0.02%
SPTM	SPDR Portfolio S&P 1500 Composite Stock Market ETF	All Cap Blend	0.03%
SCHB	Schwab U.S. Broad Market ETF	All Cap Blend	0.03%
ITOT	iShares Core S&P Total US Stock Market ETF	All 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 1500 Composite Stock Market ETF (SPTM) is one of the best ranked style ETFs in Figure 1. SPTM's Neutral [Portfolio Management rating](#) and 0.03% total annual cost earn it an Attractive rating.² Roundhill Acquirers Deep Value ETF (DEEP) is the best ranked style ETF overall. DEEP's Very Attractive Portfolio Management rating and 0.89% total annual cost earn it a Very Attractive rating.

On the other hand, 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 [portfolio management ratings, a function of the fund's](#) holdings.

Figure 2: Style ETFs with the Worst Holdings

Ticker	Name	Style	Portfolio Management Rating
IVRA	Invesco Real Assets ESG ETF	All Cap Blend	Unattractive
FPX	First Trust U.S. Equity Opportunities ETF	All Cap Growth	Unattractive
RIET	Hoya Capital High Dividend Yield ETF	All Cap Value	Unattractive
MEME	Roundhill MEME 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
NUMG	Nuveen ESG Mid Cap Growth ETF	Mid Cap Growth	Unattractive
VNMC	Natixis Vaughan Nelson Mid Cap ETF	Mid Cap Value	Unattractive
NSCS	Nuveen Small Cap Select ETF	Small Cap Blend	Unattractive
IPO	Renaissance IPO ETF	Small Cap Growth	Unattractive
VTWV	Vanguard Russell 2000 Value Index Fund	Small Cap Value	Unattractive

Sources: New Constructs, LLC and company filings

Nuveen (NUMG, NSCS) appears more often than any other provider in Figure 2, which means that it offers the most ETFs with the worst holdings.

Roundhill MEME ETF (MEME) is the worst rated ETF in Figure 2 and earns a Very Unattractive rating. Renaissance IPO ETF (IPO), Nuveen Small Cap Select ETF (NSCS), Hoya Capital High Dividend Yield ETF (RIET), and Invesco Real Assets ESG ETF (IVRA) also earn a Very Unattractive [predictive overall rating](#), which means not only do they hold poor stocks, they also 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 model 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.

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](#).



PERFORMANCE OF ETF HOLDINGS - FEES = PERFORMANCE OF ETF

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 technology to get the diligence required to make prudent investment decisions.

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1. Legacy fundamental datasets suffer from significant inaccuracies, omissions and biases.
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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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