



Why You Should Avoid Mutual Funds In the Danger Zone

For [years](#), we've been adding mutual funds to the [Danger Zone](#) because they get good ratings from legacy research providers yet have poor holdings and high costs. Heeding these warnings can protect your portfolio from blowups and help you outperform.

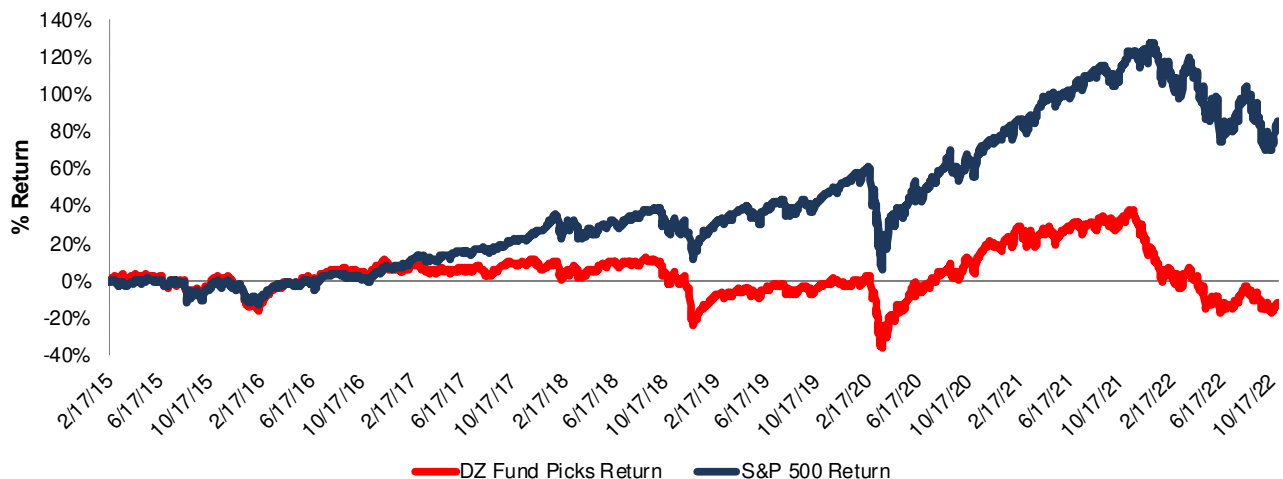
The 36 mutual funds we've put in the Danger Zone have generated an equal-weighted cumulative -11% return while the SPY is up 84%. 35 of those 36 mutual funds, starting with the first pick in [February 2015](#), have underperformed¹ the S&P 500, as measured by State Street SPDR S&P 500 ETF (SPY). Performance stats are as of October 31, 2022.

[Learn more about the best fundamental research](#)

When we put a mutual fund in the Danger Zone, investors would be wise to steer clear. Figure 1 shows the performance of our Danger Zone Fund picks versus the S&P 500 since our first Danger Zone mutual fund pick.

Figure 1: Danger Zone Fund Picks: Performance Since Inception Through October 31, 2022

Danger Zone Fund Picks Outperform As Shorts



Sources: New Constructs, LLC

Note: Performance analysis excludes fund costs, transaction costs, and dividends.

Our performance-tracking method assumes equal-weighting of all positions, e.g. each mutual fund gets \$1 of investment when added to the Danger Zone. The performance of each mutual fund is based on the return on the \$1 allocated to it. The return is based on the price movement of the mutual fund for as long as that mutual fund is in the Danger Zone. When measuring the performance of the overall portfolio, the returns of each mutual fund are weighted equally. When a mutual fund is removed from the Danger Zone, the gain (or loss) will be fixed and remain unchanged in terms of contribution to the overall return of the Danger Zone picks since inception.

Anyone focused on [fulfilling the fiduciary duty of care](#) recognizes that analyzing the holdings of a mutual fund is critical to finding funds with attractive risk/reward. Our forward-looking [mutual fund and ETF ratings](#) are based on [proven superior](#)² fundamental research on each individual fund holding. This approach captures the future

¹ Performance of each mutual fund Danger Zone pick is tracked from the closing price on the day our Danger Zone report was published through October 31, 2022 or, in the case of closed Danger Zone picks, the date we closed the Danger Zone pick.

² Our research utilizes our [Core Earnings](#), a more reliable measure of profits, as proven in [Core Earnings: New Data & Evidence](#), written by professors at Harvard Business School & MIT Sloan and published in [The Journal of Financial Economics](#).



risk/reward of a fund and differs from traditional fund research that's backward-looking and based on past price performance.

We're here to help investors navigate these turbulent times. Our [uniquely rigorous fundamental research](#) consistently earns SumZero's #1 ranking for stock picking in 10+ categories, including the [#1 All-Time ranking](#). Investors deserve reliable fundamental research, more than ever, to protect their portfolios from overvalued stocks, [ETFs](#), mutual funds, and [Zombie Stocks](#).

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

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It's Official: We Offer the Best Fundamental Data in the World

Many firms claim their research is superior, but none of them can prove it with independent studies from highly-respected institutions as we can. Three different papers from both the public and private sectors show:

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.

Our mission is to provide the best fundamental analysis of public and private businesses in the world and make it affordable for all investors, not just Wall Street insiders.

We believe every investor deserves to know the whole truth about the profitability and valuation of any company they consider for investment. More details on our cutting-edge technology and how we use it are [here](#).



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