How to Avoid the Worst Style Mutual Funds

Question: Why are there so many style mutual funds?

Answer: Mutual fund management is profitable, so Wall Street creates more products to sell.

The large number style of mutual funds 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 fund holdings and provides investors with a new source of alpha. We leverage this data to identify two red flags you can use to avoid the worst mutual funds:

1. High Fees

Mutual funds 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 mutual funds with total annual costs below 1.61% – the average total annual cost of the 5,490 U.S. equity Style mutual funds we cover. The weighted average is lower at 0.83%, which highlights how investors tend to put their money in mutual funds with low fees.

Figure 1 shows American Growth Fund Series One (AMRBX) is the most expensive style mutual fund and Vanguard 500 Index Fund (VFFSX) is the least expensive. AmericaFirst provides four of the most expensive mutual funds while Vanguard mutual funds are among the cheapest.

Figure 1: 5 Most and Least Expensive Style Mutual Funds

Ticker	Name	Style	Total Annual Cost
	Most Expensive		
AMRBX	American Growth Fund Series One	All Cap Blend	9.59%
AMRAX	American Growth Fund Series One	All Cap Blend	8.79%
AMRGX	American Growth Fund Series One	All Cap Blend	8.27%
LIONX	Berkshire Focus Fund	All Cap Blend	7.81%
AMRCX	American Growth Fund Series One	All Cap Blend	7.57%
	Least Expensive		
VFFSX	Vanguard 500 Index Fund	Large Cap Blend	0.02%
VSTSX	Vanguard Total Stock Market Index Fund	All Cap Blend	0.02%
FXAIX	Fidelity 500 Index Fund	Large Cap Blend	0.02%
FSKAX	Fidelity Total Market Index Fund	All Cap Blend	0.02%
VSMPX	Vanguard Total Stock Market Index Fund	All Cap Blend	0.03%

Sources: New Constructs, LLC and company filings

Investors need not pay high fees for quality holdings.[1] Fidelity 500 Index Fund (FXAIX) is the best ranked style mutual fund in Figure 1. FXAIX's Neutral Portfolio Management rating and 0.02% total annual cost earns it an Attractive rating.[2] Hennessy Cornerstone Large Growth Fund (HILGX) is the best ranked style mutual fund

[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.

overall. HILGX's Attractive Portfolio Management rating and 1.22% total annual cost earns it a Very Attractive rating.

On the other hand, Fidelity Extended Market Index Fund (FSMAX) holds poor stocks and earns our Unattractive rating, yet has low total annual costs of 0.08%. No matter how cheap a mutual fund, if it holds bad stocks, its performance will be bad. The quality of a mutual fund's holdings matters more than its price.

2. Poor Holdings

Avoiding poor holdings is by far the hardest part of avoiding bad mutual funds, but it is also the most important because a mutual fund's performance is determined more by its holdings than its costs. Figure 2 shows the mutual funds within each style with the worst holdings or portfolio management ratings.

Figure 2: Style Mutual Funds with the Worst Holdings

Ticker	Name	Style	Portfolio Management Rating
REPIX	Real Estate UltraSector ProFund	All Cap Blend	Very Unattractive
TCPWX	Transamerica Capital Growth Fund	All Cap Growth	Unattractive
CILGX	ALPS Clarkston Fund	All Cap Value	Unattractive
SDYYX	Dynamic Asset Allocation Fund	Large Cap Blend	Unattractive
OTPIX	Nasdaq-100 ProFund	Large Cap Growth	Unattractive
TALCX	Transamerica Large Cap Value Fund	Large Cap Value	Unattractive
CMVYX	Columbia Select Mid Cap Value Fund	Mid Cap Blend	Unattractive
DBMYX	BNY Mellon Small/Mid Cap Growth Fund	Mid Cap Growth	Unattractive
VVOSX	Invesco Value Opportunities Fund	Mid Cap Value	Unattractive
SLPIX	Small-Cap ProFund	Small Cap Blend	Very Unattractive
FGROX	Emerald Growth Fund	Small Cap Growth	Unattractive
PVFIX	Pinnacle Value Fund	Small Cap Value	Very Unattractive

Sources: New Constructs, LLC and company filings

Transamerica Capital Growth Fund (TCPWX) is the worst rated mutual fund in Figure 2 based on our predictive overall rating. Emerald Growth Fund (FGROX), BNY Mellon Small/Mid Cap Growth Fund (DBMYX), Real Estate UltraSector ProFund (REPIX), Small-Cap ProFund (SLPIX), and Pinnacle Value Fund (PVFIX) 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 mutual funds reflects our stock ratings of their holdings and a measure of the total annual costs of investing in the fund.

The Danger Within

Buying a mutual fund without analyzing its holdings is like buying a stock without analyzing its business model and finances. Put another way, research on mutual fund holdings is necessary due diligence because a mutual fund's performance is only as good as its holdings. Don't just take our word for it, see what Barron's says on this matter.

PERFORMANCE OF MUTUAL FUND's HOLDINGs – FEES = PERFORMANCE OF MUTUAL FUND

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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It's Official: We Deliver 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. The stock market is missing footnotes – and only we have that critical data.
2. Legacy fundamental datasets suffer from significant inaccuracies, omissions, and biases.
3. Our proprietary drives novel alpha. Our measures of Core Earnings and Earnings Distortion materially improve stock picking and forecasting of profits.

Best Fundamental Data in the World

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

Ernst & Young 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 Harvard Business School. 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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