

Best & Worst ETFs and Mutual Funds: Small Cap Value Style

The Small Cap Value style ranks twelfth out of the twelve fund styles as detailed in my [Style Rankings for ETFs and Mutual Funds](#) report. It gets my Dangerous rating, which is based on aggregation of ratings of 15 ETFs and 257 mutual funds in the Small Cap Value style as of July 31, 2014. Prior reports on the best & worst ETFs and mutual funds in every sector and style are [here](#).

Figures 1 and 2 show the five best and worst-rated ETFs and mutual funds in the sector. Not all Small Cap Value style ETFs and mutual funds are created the same. The number of holdings varies widely (from 16 to 1561). This variation creates drastically different investment implications and, therefore, ratings. The best ETFs and mutual funds allocate more value to Attractive-or-better-rated stocks than the worst, which allocate too much value to Neutral-or-worse-rated stocks.

To [identify the best](#) and [avoid the worst](#) ETFs and mutual funds within the Small Cap Value sector, investors need a [predictive rating](#) based on (1) the [stocks ratings](#) of the holdings, (2) the [all-in expenses](#) of each ETF and mutual fund, and (3) the fund's rank compared to all other ETFs and mutual funds. As a result, only the cheapest funds with the best holdings receive Attractive or better ratings. Investors need not rely on backward-looking ratings. My fund rating methodology is detailed [here](#).

Investors seeking exposure to the Small Cap Value style should buy one of the Attractive-or-better rated ETFs or mutual funds from Figures 1 and 2.

Get my ratings on all ETFs and mutual funds in this style by searching for Small Cap Value on my [mutual fund and ETF screener](#).

Figure 1: ETFs with the Best & Worst Ratings – Top 5

Ticker	Allocation of ETF Holdings			Predictive Rating
	Attractive-or-better Stocks	Neutral Stocks	Dangerous-or-worse Stocks	
Best ETFs				
FNK	18%	33%	43%	Attractive
RFV	14%	34%	46%	Neutral
JKL	11%	25%	58%	Neutral
VBR	10%	27%	57%	Dangerous
IJS	6%	19%	74%	Dangerous
Worst ETFs				
XSLV	6%	27%	66%	Dangerous
RZV	5%	19%	74%	Dangerous
VTWV	7%	17%	66%	Dangerous
PXSV	6%	17%	71%	Dangerous
PZI	5%	12%	55%	Dangerous

* Best ETFs exclude ETFs with TNAs less than \$100 million for inadequate liquidity.

Sources: New Constructs, LLC and company filings

First Trust Small Cap Value AlphaDEX ETF (FYT) and Vanguard S&P Small-Cap 600 Value ETF (VIOV) are excluded from Figure 1 because their total net assets (TNA) are below \$100 million and do not meet our liquidity minimums.

Figure 2: Mutual Funds with the Best & Worst Ratings – Top 5

Ticker	Allocation of Mutual Fund Holdings			Predictive Rating
	Attractive-or-better Stocks	Neutral Stocks	Dangerous-or-worse Stocks	
Best Mutual Funds				
ANFVX	14%	22%	46%	Neutral
PSVIX	14%	22%	46%	Neutral
ASVPX	14%	22%	46%	Neutral
PVADX	14%	22%	46%	Neutral
PNVDX	14%	22%	46%	Neutral
Worst Mutual Funds				
SCVAX	7%	18%	68%	Very Dangerous
DASVX	8%	19%	66%	Very Dangerous
ARVIX	0%	5%	13%	Very Dangerous
ARIVX	0%	5%	13%	Very Dangerous
ACSCX	9%	18%	58%	Very Dangerous

* Best mutual funds exclude funds with TNAs less than \$100 million for inadequate liquidity.

Sources: New Constructs, LLC and company filings

Investment Managers Series Trust: Bernzott US Small Cap Value Fund (BSCVX), Advisors' Inner Circle Fund: LSV Small Cap Value Fund (LSVQX), and Baird Funds, Inc. Baird SmallCap Value Fund (BSVIX) are excluded from Figure 2 because their total net assets (TNA) are below \$100 million and do not meet our liquidity minimums.

First Trust Mid Cap Value AlphaDEX ETF (FNK) is my top-rated Small Cap Value ETF and Allianz Funds: AllianzGI NFJ Small-Cap Value Fund (ANFVX) is my top-rated Small Cap Value mutual fund. FNK earns my Attractive rating and ANFVX earns my Neutral rating.

PowerShares Zacks Micro Cap ETF (PZI) is my worst-rated Small Cap Value ETF and American Century Capital Portfolios, Inc. Small Cap Value Fund (ACSCX) is my worst-rated Small Cap Value mutual fund. PZI earns my Dangerous rating and ACSCX earns my Very Dangerous rating.

Figure 3 shows that 195 out of the 2119 stocks (over 10% of the market value) in Small Cap Value ETFs and mutual funds get an Attractive-or-better rating. However, only 1 out of 15 Small Cap Value ETFs (less than 1% of total net assets) and 0 out of 257 Small Cap Value mutual funds get an Attractive-or-better rating.

The takeaways are: mutual fund managers allocate too much capital to low-quality stocks and Small Cap Value ETFs hold poor quality stocks.

Figure 3: Small Cap Value Style Landscape For ETFs, Mutual Funds & Stocks

	Very Attractive	Attractive	Neutral	Dangerous	Very Dangerous
# of Stocks	57	138	468	1119	337
% of Style	3%	7%	23%	49%	19%
# of ETFs	0	1	3	11	0
% of ETFs	0%	7%	20%	73%	0%
% of TNA	0%	1%	4%	96%	0%
# of MFs	0	0	50	124	83
% of MFs	0%	0%	19%	48%	32%
% of TNA	0%	0%	22%	61%	17%

Sources: New Constructs, LLC and company filings

As detailed in "[Cheap Funds Dupe Investors](#)", the fund industry offers many cheap funds but very few funds with high-quality stocks, or with what I call good [portfolio management](#).

Investors need to tread carefully when considering Small Cap Value ETFs and mutual funds, as only one ETF and no mutual funds in the Small Cap Value style allocate enough value to Attractive-or-better-rated stocks to earn an Attractive rating.

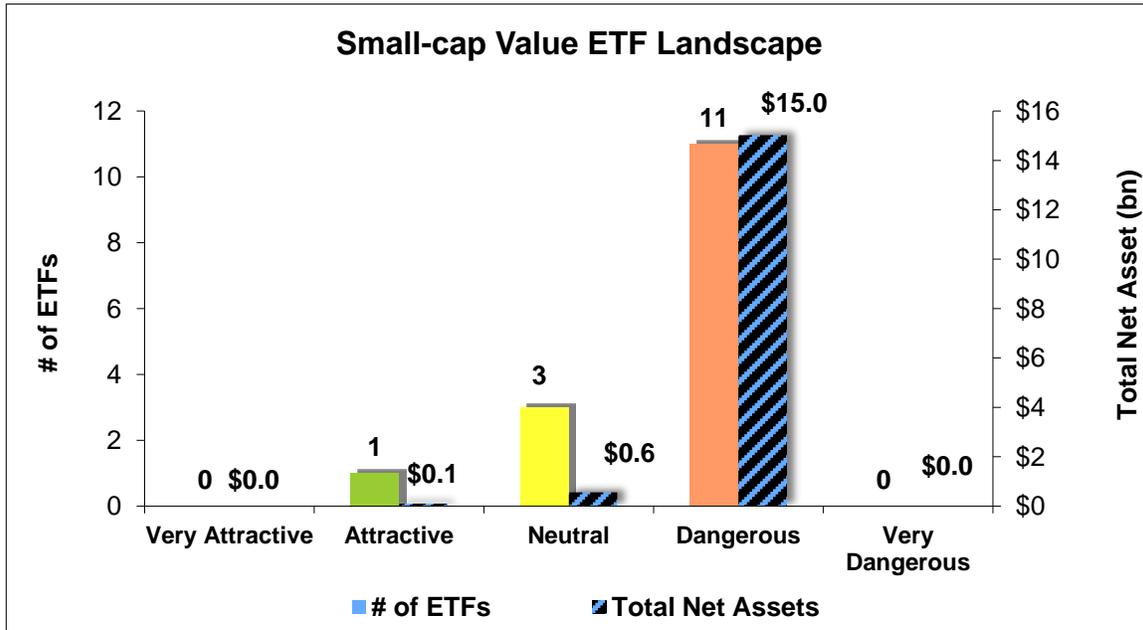
Schweitzer-Mauduit International, Inc. (SWM) is one of my favorite stocks held by Small Cap Value ETFs and mutual funds and earns my Attractive rating. Over the past ten years, SWM has grown after-tax profit ([NOPAT](#)) by 13% compounded annually. SWM also currently earns a top-quintile return on invested capital ([ROIC](#)) of 16%. Despite this outstanding profit growth, SWM remains undervalued. At its current price of ~\$42/share, SWM has a price to economic book value ([PEBV](#)) ratio of 1.1. This ratio implies that the market expects SWM to grow NOPAT by only 10% from its current levels over the remaining life of the corporation. This expectation is rather low given the 13% NOPAT growth achieved for the past decade. Impressive profit growth in the past and low expectations for future profit growth create a good opportunity to buy SWM.

Entravision Communications Corp (EVC) is one of my least favorite stocks held by small cap value ETFs and mutual funds and earns my Very Dangerous rating. Since 2009 EVC has grown [NOPAT](#) by only 1% compounded annually. EVC has not increased [ROIC](#) over that time either, still earning a bottom quintile 3%. The company has not managed to earn positive [economic earnings](#) in any year since going public in 2000. Despite its poor track record, EVC is priced for significant profit growth. To justify its current price of ~\$5.50/share, EVC must grow NOPAT by 10% compounded annually for the next 27 years. High market expectations and poor historical profits make EVC too risky especially compared to stocks like SWM.

Figures 4 and 5 show the rating landscape of all Small Cap Value ETFs and mutual funds.

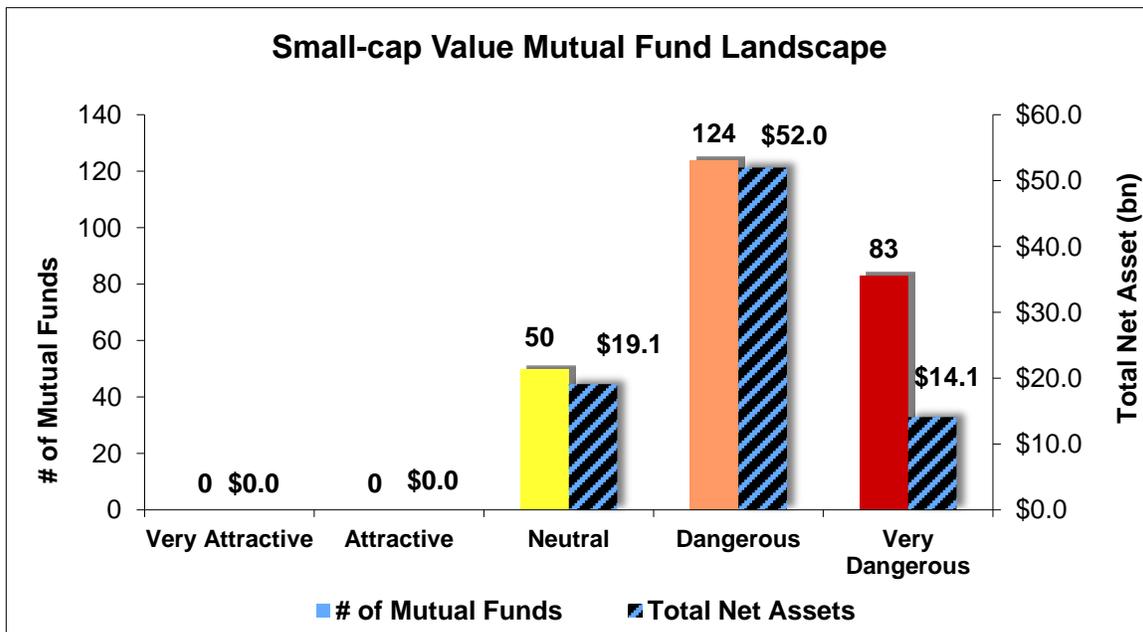
My [Style Rankings for ETFs and Mutual Funds](#) report ranks all styles and highlights those that offer the best investments.

Figure 4: Separating the Best ETFs From the Worst Funds



Sources: New Constructs, LLC and company filings

Figure 5: Separating the Best Mutual Funds From the Worst Funds



Sources: New Constructs, LLC and company filings

Review my [full list](#) of ratings and rankings along with reports on all 15 ETFs and 257 mutual funds in the Small Cap Value style.

Kyle Guske II contributed to this report.

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

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