

Best & Worst ETFs and Mutual Funds: All Cap Growth Style

The All Cap Growth style ranks fourth out of the twelve fund styles as detailed in my [Style Rankings for ETFs and Mutual Funds](#) report. It gets my Neutral rating, which is based on aggregation of ratings of 0 ETFs and 496 mutual funds in the All Cap Growth style as of July 21, 2014. Prior reports on the best & worst ETFs and mutual funds in every sector and style are [here](#).

Figure 1 shows the five best and worst-rated all cap growth mutual funds. Not all All Cap Growth style ETFs and mutual funds are created the same. The number of holdings varies widely (from 20 to 2092). 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 All Cap Growth 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 All Cap Growth style should buy one of the Attractive-or-better rated mutual funds from Figure 1.

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

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

		Allocation of Mutual Fund Holdings		
Ticker	Attractive-or-better Stocks	Neutral Stocks	Dangerous-or-worse Stocks	Predictive Rating
Best Mutual Funds				
IFPUX	29%	46%	2%	Very Attractive
DPUYX	21%	59%	17%	Very Attractive
DPUIX	21%	59%	17%	Very Attractive
AMIGX	20%	40%	26%	Very Attractive
MPCIX	26%	52%	20%	Very Attractive
Worst Mutual Funds				
SGNFX	5%	25%	59%	Very Dangerous
DDDAX	9%	16%	63%	Very Dangerous
SGFCX	5%	25%	59%	Very Dangerous
SGFFX	5%	25%	59%	Very Dangerous
MOFQX	6%	8%	48%	Very Dangerous

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

Sources: New Constructs, LLC and company filings

AMG Funds: AMG Renaissance Large Cap Growth Fund (MRLIX) and AMG Funds: AMG Renaissance Large Cap Growth Fund (MRLSX) are excluded from Figure 2 because their total net assets (TNA) are below \$100 million and do not meet our liquidity minimums.

Advisers Investment Trust: Independent Franchise Partners US Equity Fund (IFPUX) is my top-rated All Cap Growth mutual fund. It earns my Very Attractive rating.

Marketocracy Funds: Masters 100 Fund (MOFQX) is my worst-rated All Cap Growth mutual fund. It earns my Very Dangerous rating.

Figure 2 shows that 213 out of the 1990 stocks (over 11% of the market value) in All Cap Growth ETFs and mutual funds get an Attractive-or-better rating. However, there are no All Cap Growth ETFs and 124 out of 496 All Cap Growth mutual funds (less than 20% of total net assets) get an Attractive-or-better rating.

Figure 2: All Cap Growth Style Landscape For ETFs, Mutual Funds & Stocks

	Very Attractive	Attractive	Neutral	Dangerous	Very Dangerous
# of Stocks	52	161	588	932	257
% of Style	2%	9%	48%	30%	11%
# of ETFs	0	0	0	0	0
% of ETFs	0%	0%	0%	0%	0%
% of TNA	0%	0%	0%	0%	0%
# of MFs	43	81	295	66	11
% of MFs	9%	16%	59%	13%	2%
% of TNA	3%	17%	71%	8%	0%

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 All Cap Growth ETFs and mutual funds. There are no All Cap Growth ETFs and only 124 mutual funds in the All Cap Growth style allocate enough value to Attractive-or-better-rated stocks to earn an Attractive rating.

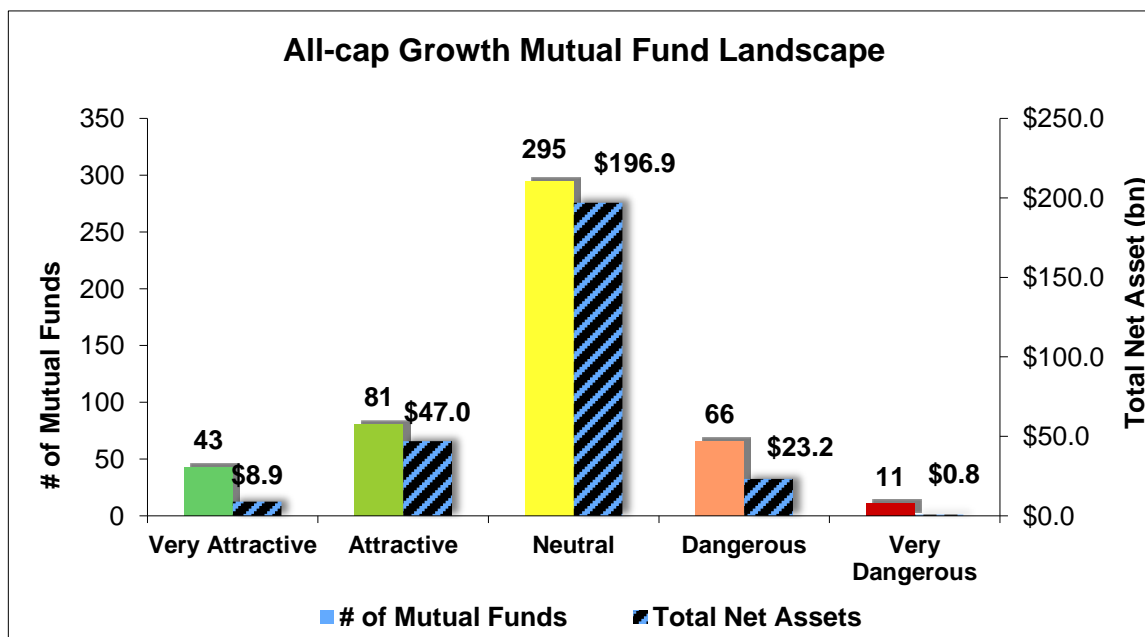
International Business Machines Corp (IBM) is one of my favorite stocks held by All Cap Growth ETFs and mutual funds and earns my Very Attractive rating. 2013 was a rough year for IBM as after-tax profit ([NOPAT](#)) declined by 3%, but the company's long-term profit growth is solid. Over the past decade, IBM has grown NOPAT by 8% compounded annually. Its return on invested capital ([ROIC](#)) is 15%, placing it in the top quintile of all companies I cover. The market does not seem to value this long-term track record and values IBM at a discount to its current profitability. At its current price of ~\$190/share, IBM has a price to economic book value ([PEBV](#)) ratio of 0.9. This ratio implies that the market expects IBM's NOPAT to permanently decline by 10% from its current levels. This expectation seems rather pessimistic for a company that has grown NOPAT consistently for over a decade.

Salesforce.com Inc. (CRM) is one of my least favorite stocks held by All Cap Growth ETFs and mutual funds and earns my Very Dangerous rating. CRM's [NOPAT](#) in 2011 was \$78 million and has rapidly declined since. In 2013, NOPAT had decreased to -\$151 million. The company's [ROIC](#) followed suit and is currently a bottom quintile -4%. Despite these drastic declines in profitability, the stock is up over 27% in the past year, which makes CRM quite overvalued. To justify its current price of ~\$54/share, CRM would need to achieve pre-tax margins of 15% and grow revenue by 20% compounded annually for the next 15 years. CRM's revenue growth has been impressive, but the [stock is priced for absolute perfect execution](#) going forward, with significant downside if it fails to achieve consistent profitability while maintaining high revenue growth rates.

Figure 3 shows the rating landscape of all All Cap Growth mutual funds.

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

Figure 3: 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 0 ETFs and 496 mutual funds in the All Cap Growth style.

Kyle Guske II contributed to this report.

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

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