



Investment Style Rankings For ETFs, Mutual Funds & Stocks

At the beginning of the fourth quarter of 2014, only the Large Cap Value and Large Cap Blend styles earn an Attractive rating. My style rankings are based on the aggregation of my [fund ratings](#) for every ETF and mutual fund in each style.

Investors looking for style funds that hold quality stocks should look no further than the Large Cap Blend and Large Cap Value styles. These styles house the most Attractive-or-better rated funds. Figures 6 and 7 provide details. The primary driver behind an Attractive fund rating is good [portfolio management](#), or good stock picking, with low [Total Annual Costs](#).

Note that the Attractive-or-better Predictive ratings do not always correlate with Attractive-or-better Total Annual Costs. This fact underscores that (1) [cheap funds can dupe investors](#) and (2) investors should invest only in funds with good stocks and low fees.

See Figures 4 through 13 for a detailed breakdown of ratings distributions by investment style. See my [ETF & mutual fund screener](#) for rankings, ratings and reports on 6800+ mutual funds and 400+ ETFs.

My fund rating methodology is detailed [here](#).

All of my reports on the best & worst ETFs and mutual funds in every sector and investment style are available [here](#).

Figure 1: Ratings For All Investment Styles

Style	Predictive Rating	Portfolio Management Rating	Total Annual Costs Rating
Small Cap Value	Dangerous	Dangerous	Neutral
Small Cap Growth	Dangerous	Dangerous	Neutral
Small Cap Blend	Dangerous	Dangerous	Neutral
Mid Cap Value	Dangerous	Dangerous	Neutral
Mid Cap Growth	Dangerous	Dangerous	Neutral
Mid Cap Blend	Neutral	Dangerous	Attractive
All Cap Value	Neutral	Neutral	Neutral
All Cap Growth	Neutral	Neutral	Neutral
Large Cap Growth	Neutral	Neutral	Neutral
All Cap Blend	Neutral	Neutral	Attractive
Large Cap Blend	Attractive	Neutral	Attractive
Large Cap Value	Attractive	Neutral	Neutral

Source: New Constructs, LLC and company filings

To earn an Attractive-or-better Predictive Rating, an ETF or mutual fund must have high-quality holdings and low costs. Only 2152 style ETFs and mutual funds meet these requirements, which is only 32% of all style ETFs and mutual funds.

Fidelity Value Discovery Fund (FVDKX) is my top Large Cap Value mutual fund. It gets my Very Attractive rating by allocating over 42% of its value to Attractive-or-better-rated stocks.

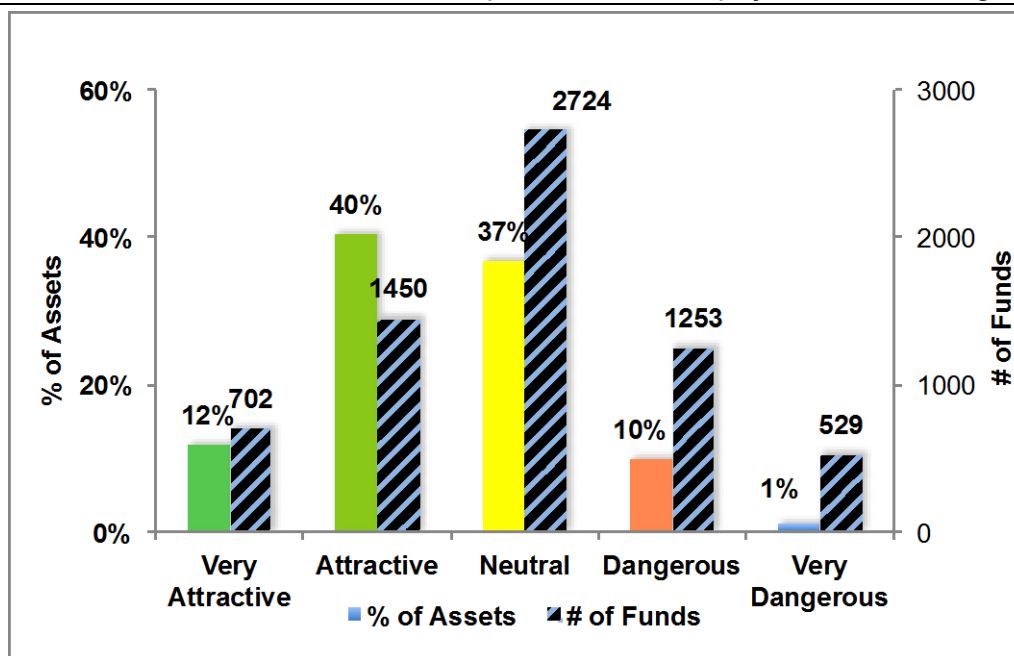
Johnson & Johnson (JNJ) is one of my favorite stocks held by FVDKX and earns my Very Attractive rating. As I've stated before, [Johnson & Johnson is a great pick](#) in the current market. Over the last decade, Johnson & Johnson has grown after-tax profits ([NOPAT](#)) by 8% compounded annually. In 2013, the company earned a return on invested capital ([ROIC](#)) of 15%, which puts it in the top quintile of all the companies I cover. Johnson & Johnson has also generated positive [economic earnings](#) every year for the past 16 years. At its current price of ~\$97/share, JNJ has a price to economic book value ([PEBV](#)) of just 1.1. This ratio implies that the market expects Johnson & Johnson to grow NOPAT by only 10% for the remaining life of the company. With Johnson & Johnson's history of consistent profit growth and an aging U.S. population, the company should easily surpass such low market expectations.

Small-Cap ProFund (SLPSX) is my worst Small Cap Blend mutual fund. It gets my Very Dangerous rating by allocating over 52% of its value to Neutral-or-worse-rated stocks, and to make matters worse, charges investors Total Annual Costs of 5.50%.

SunEdison (SUNE) is one of my least favorite stocks held by SLPSX and earns my Dangerous rating. SUNE's after-tax operating (NOPAT) losses have deepened in recent years, from -\$50 million in 2009 to -\$220 million in 2013. The company currently earns an ROIC of -5%, which puts it in the bottom quintile of all companies I cover. SunEdison's valuation looks rather high given its increasingly negative NOPAT. To justify its current price of ~\$15/share, SUNE must achieve pre-tax margins of 15% and grow revenue by 12% compounded annually for the next 13 years. Such high margins and revenue growth seem unlikely, especially for a company that has become consistently and increasingly unprofitable. Declining NOPAT and elevated market expectations make SUNE a stock to avoid.

Figure 2 shows the distribution of our Predictive Ratings for all investment style ETFs and mutual funds.

Figure 2: Distribution of ETFs & Mutual Funds (Assets and Count) by Predictive Rating



Source: New Constructs, LLC and company filings

Figure 3 offers additional details on the quality of the investment style funds. Note that the average Total Annual Cost of Very Dangerous funds is over five times that of Very Attractive funds.

Figure 3: Predictive Rating Distribution Stats

	Very Attractive	Attractive	Neutral	Dangerous	Very Dangerous
# of ETFs & Funds	702	1450	2724	1253	529
% of ETFs & Funds	11%	22%	41%	19%	8%
% of TNA	12%	40%	37%	10%	1%
Avg TAC	0.65%	0.54%	1.36%	1.93%	3.32%

* Avg TAC = Weighted Average Total Annual Costs

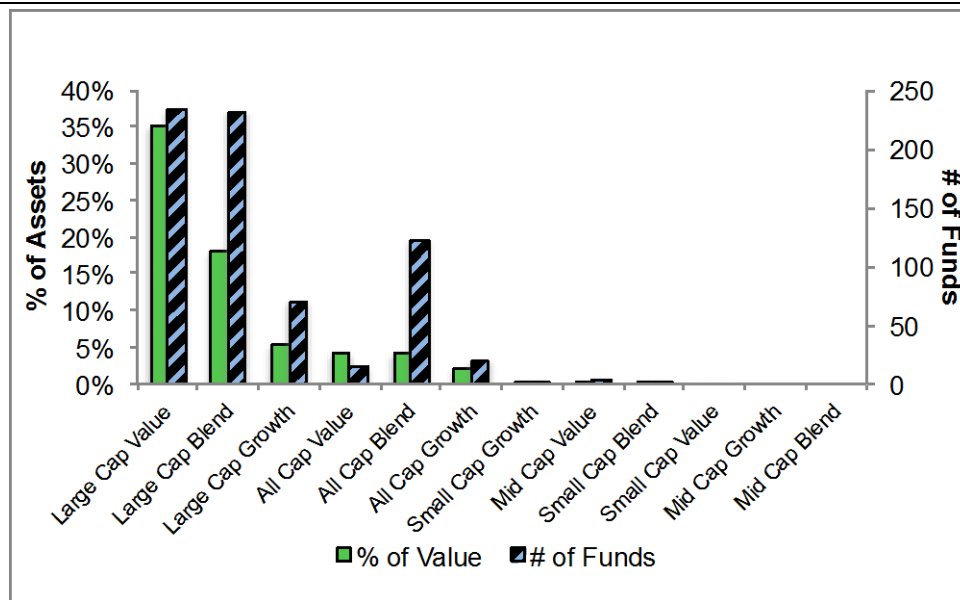
Source: New Constructs, LLC and company filings

This table shows that only the best of the best funds get our Very Attractive Rating: they must hold good stocks AND have low costs. Investors deserve to have the best of both and we are here to give it to them.

Ratings by Investment Style

Figure 4 presents a mapping of Very Attractive funds by investment style. The chart shows the number of Very Attractive funds in each investment style and the percentage of assets in each style allocated to funds that are rated Very Attractive.

Only 702 investment style funds earn our Very Attractive rating.

Figure 4: Very Attractive ETFs & Mutual Funds by Investment Style


Source: New Constructs, LLC and company filings

Figure 5 presents the data charted in Figure 4

Figure 5: Very Attractive ETFs & Mutual Funds by Investment Style

Style	% of Style Assets	# of Very Attractive Funds	% of Very Attractive Funds in Style
Large Cap Value	35%	233	25%
Large Cap Blend	18%	232	24%
Large Cap Growth	5%	71	10%
All Cap Value	4%	15	6%
All Cap Blend	4%	123	15%
All Cap Growth	2%	21	4%
Small Cap Growth	0%	1	0%
Mid Cap Value	0%	5	3%
Small Cap Blend	0%	1	0%
Small Cap Value	0%	0	0%
Mid Cap Growth	0%	0	0%
Mid Cap Blend	0%	0	0%

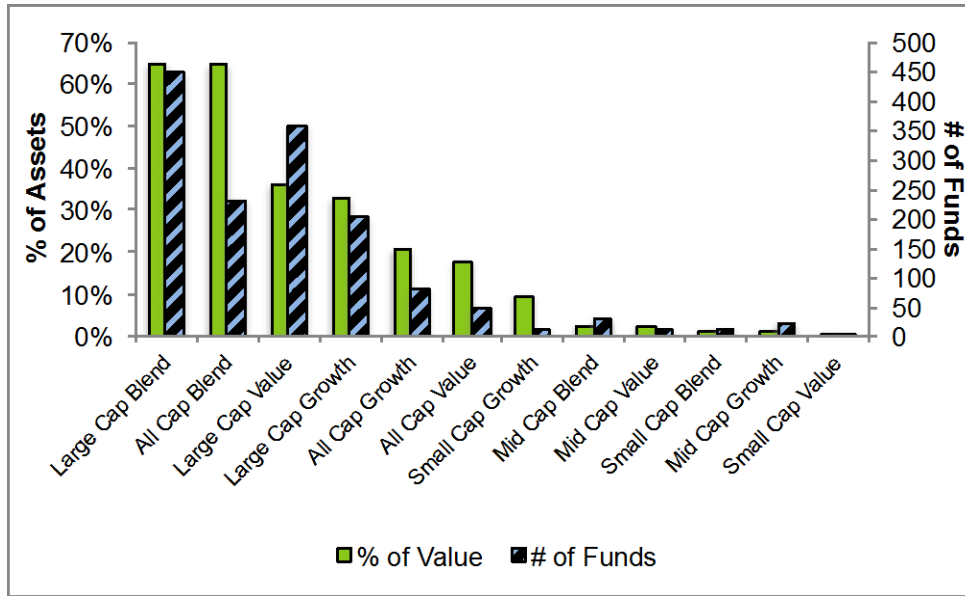
Source: New Constructs, LLC and company filings



Figure 6 presents a mapping of Attractive funds by investment style. The chart shows the number of Attractive funds in each style and the percentage of assets allocated to Attractive-rated funds in each style.

Note that the Large Cap Blend and Large Cap Value styles have the most Attractive-rated funds.

Figure 6: Attractive ETFs & Mutual Funds by Investment Style



Source: New Constructs, LLC and company filings

Figure 7 presents the data charted in Figure 6.

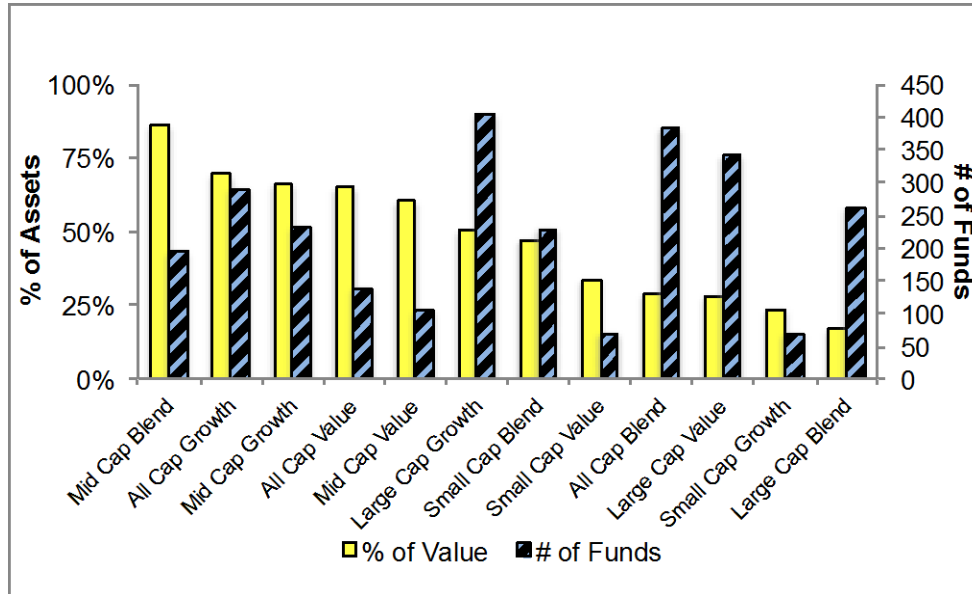
Figure 7: Attractive ETFs & Mutual Funds by Investment Style

Style	% of Style Assets	# of Attractive Funds	% of Attractive Funds in Style
Large Cap Blend	65%	446	46%
All Cap Blend	64%	232	28%
Large Cap Value	36%	358	38%
Large Cap Growth	33%	201	28%
All Cap Growth	21%	78	16%
All Cap Value	18%	49	21%
Small Cap Growth	10%	10	2%
Mid Cap Blend	2%	29	8%
Mid Cap Value	2%	11	6%
Small Cap Blend	1%	12	2%
Mid Cap Growth	1%	22	5%
Small Cap Value	0%	2	1%

Source: New Constructs, LLC and company filings

Figure 8 presents a mapping of Neutral funds by investment style. The chart shows the number of Neutral funds in each investment style and the percentage of assets allocated to Neutral-rated funds in each style.

Figure 8: Neutral ETFs & Mutual Funds by Investment Style



Source: New Constructs, LLC and company filings

Figure 9 presents the data charted in Figure 8.

Figure 9: Neutral ETFs & Mutual Funds by Investment Style

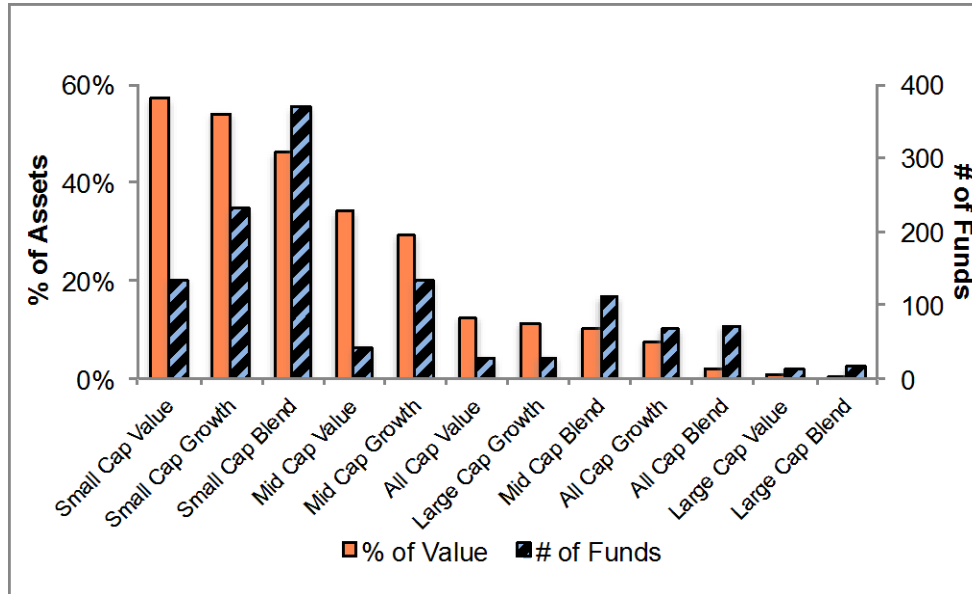
Style	% of Style Assets	# of Neutral Funds	% of Neutral Funds in Style
Mid Cap Blend	86%	195	55%
All Cap Growth	69%	291	61%
Mid Cap Growth	66%	233	56%
All Cap Value	65%	140	59%
Mid Cap Value	60%	105	60%
Large Cap Growth	50%	404	57%
Small Cap Blend	47%	230	30%
Small Cap Value	34%	70	25%
All Cap Blend	29%	383	46%
Large Cap Value	28%	341	36%
Small Cap Growth	24%	70	14%
Large Cap Blend	17%	262	27%

Source: New Constructs, LLC and company filings



Figure 10 presents a mapping of Dangerous funds by fund style. The chart shows the number of Dangerous funds in each investment style and the percentage of assets allocated to Dangerous-rated funds in each style.

Figure 10: Dangerous ETFs & Mutual Funds by Investment Style



Source: New Constructs, LLC and company filings

Figure 11 presents the data charted in Figure 10. Note that Dangerous-rated Small Cap Value, Small Cap Growth, and Small Cap Blend funds make up nearly half of the total funds in those styles.

Figure 11: Dangerous ETFs & Mutual Funds by Investment Style

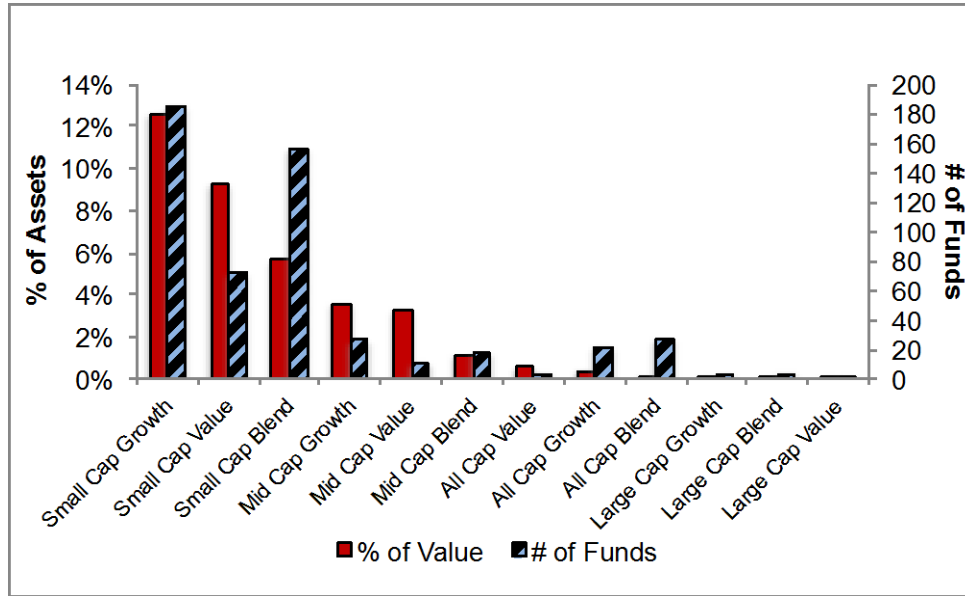
Style	% of Style Assets	# of Dangerous Funds	% of Dangerous Funds in Style
Small Cap Value	57%	135	48%
Small Cap Growth	54%	231	46%
Small Cap Blend	46%	368	48%
Mid Cap Value	34%	44	25%
Mid Cap Growth	29%	135	32%
All Cap Value	13%	29	12%
Large Cap Growth	12%	30	4%
Mid Cap Blend	10%	111	31%
All Cap Growth	8%	67	14%
All Cap Blend	2%	72	9%
Large Cap Value	1%	15	2%
Large Cap Blend	0%	16	2%

Source: New Constructs, LLC and company filings



Figure 12 presents a mapping of Very Dangerous funds by fund style. The chart shows the number of Very Dangerous funds in each investment style and the percentage of assets in each style allocated to funds that are rated Very Dangerous.

Figure 12: Very Dangerous ETFs & Mutual Funds by Investment Style



Source: New Constructs, LLC and company filings

Figure 13 presents the data charted in Figure 12.

Figure 13: Very Dangerous ETFs & Mutual Funds by Investment Style

Style	% of Style Assets	# of Very Dangerous Funds	% of Very Dangerous Funds in Style
Small Cap Growth	13%	185	37%
Small Cap Value	9%	72	26%
Small Cap Blend	6%	156	20%
Mid Cap Growth	4%	26	6%
Mid Cap Value	3%	11	6%
Mid Cap Blend	1%	18	5%
All Cap Value	1%	4	2%
All Cap Growth	0%	22	5%
All Cap Blend	0%	27	3%
Large Cap Growth	0%	3	0%
Large Cap Blend	0%	4	0%
Large Cap Value	0%	1	0%

Source: New Constructs, LLC and company filings

Kyle Guske II contributed to this report.

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

Appendix: Predictive Fund Rating System

New Constructs' [Predictive fund Ratings](#) enable smarter investing by assessing the key drivers of future fund performance. We start by analyzing every funds' holdings based on New Constructs' stock ratings, which are regularly featured as among the [best by Barron's](#). Next, we measure and rank the all-in fund expenses. Finally, we rank the fund compared to all other funds to identify the best and worst funds in the market.

Intuitively, there are two drivers for future fund performance.

1. Stock-picking ([Portfolio Management Rating](#)) and
2. Fund expenses ([Total Annual Costs Rating](#))

Our Predictive Fund Rating is based on these drivers and the fund's ranking:

1. Top 10% = Very Attractive Rating
2. Next 20% = Attractive Rating
3. Next 40% = Neutral Rating
4. Next 20% = Dangerous Rating
5. Bottom 10% = Very Dangerous Rating

The figure below details the criteria that drive our Predictive Rating system for funds. The two drivers of our predictive ratings system are Portfolio Management and Total Annual Costs. The Portfolio Management ratings (detail [here](#)) is the same as our Stock Rating (detail [here](#)) except that we incorporate Asset Allocation (details [here](#)). The Total Annual Costs Ratings (details [here](#)) captures the all-in costs of being in a fund over a 3-year holding period, the average period for all mutual funds.

Predictive Rating	Portfolio Management Rating					Cash Allocation	Total Annual Costs
	Business Strength		Valuation				
	Quality of Earnings	Return on Invested Capital	FCF Yield	Price to Economic Book Value	Market-Implied Duration of Growth		
Very Dangerous	Misleading Trend	Bottom Quintile	< -5%	>3.5 or -1<0	> 50	> 20%	> 4 %
Dangerous	False Positive	4th Quintile	-5% < -1%	2.4<3.5 or <-1	20 < 50	8% < 20%	2% < 4%
Neutral	Neutral EE	3rd Quintile	-1% < 3%	1.6 < 2.4	10 < 20	2.5% < 8%	1% < 2%
Attractive	Positive EE	2nd Quintile	3% < 10%	1.1 < 1.6	3 < 10	1% < 2.5%	0.5% < 1%
Very Attractive	Rising EE	Top Quintile	> 10%	0 < 1.1	0 < 3	<1%	< 0.5%



New Constructs® – Profile

How New Constructs Creates Value for Clients

1. **Superior Recommendations** – Our [stock picks](#) consistently outperform. See our track record in our [stock-picking accolades](#) and [Proof Is In Performance](#) reports.
2. **More Accurate Research** – Our [patented Research Platform](#) for [reversing accounting distortions](#) and [discounted cash flow analysis](#) leverages better data to deliver smarter research.
3. **Time Savings** – We check the fine print in thousands of corporate filings so you don't have to. As reported by [Barron's](#), our expertise in analyzing SEC filings delivers [Hidden Gems and Red Flags](#) that drive long-term stock-picking success.
4. **Transparency** – We are proud to share the results of our analysis of over 50,000 10Ks. [Request](#) the Corporate Disclosure Transgressions report we provided the SEC. Our reports detail all data and assumptions. Company Models enable users to change them.
5. **Objectivity** – New Constructs is an independent research firm, not tied to Wall Street or investment banking services. Our models are driven by comprehensive high-quality data not stories. See our [presentation to the Senate Banking Committee](#), the SEC and many others in DC.

Our Philosophy About Research

Accounting data is not designed for equity investors, but for debt investors. [Accounting data must be translated into economic earnings](#) to understand the profitability and valuation relevant to equity investors. Respected investors (e.g. Adam Smith, Warren Buffett and Ben Graham) have repeatedly emphasized that accounting results should not be used to value stocks. [Economic earnings](#) are what matter because they are:

1. Based on the complete set of financial information available.
2. Standard for all companies.
3. A more accurate representation of the true underlying cash flows of the business.

Additional Information

Incorporated in July 2002, [New Constructs](#) is an independent publisher of investment research that provides clients with consulting, advisory and research services. We specialize in quality-of-earnings, forensic accounting and discounted cash flow valuation analyses for all U.S. public companies. We translate accounting data from 10Ks into economic financial statements, i.e. [NOPAT](#), [Invested Capital](#), and [WACC](#), to create [economic earnings models](#), which are necessary to understand the true profitability and valuation of companies. Visit the [Free Archive](#) to download samples of our research. New Constructs is a [BBB accredited](#) business and a member of the [Investorside Research Association](#).

DISCLOSURES

New Constructs®, LLC (together with any subsidiaries and/or affiliates, "New Constructs") is an independent organization with no management ties to the companies it covers. None of the members of New Constructs' management team or the management team of any New Constructs' affiliate holds a seat on the Board of Directors of any of the companies New Constructs covers. New Constructs does not perform any investment or merchant banking functions and does not operate a trading desk.

New Constructs' Stock Ownership Policy prevents any of its employees or managers from engaging in Insider Trading and restricts any trading whereby an employee may exploit inside information regarding our stock research. In addition, employees and managers of the company are bound by a code of ethics that restricts them from purchasing or selling a security that they know or should have known was under consideration for inclusion in a New Constructs report nor may they purchase or sell a security for the first 15 days after New Constructs issues a report on that security.

New Constructs is affiliated with Novo Capital Management, LLC, the general partner of a hedge fund. At any particular time, New Constructs' research recommendations may not coincide with the hedge fund's holdings. However, in no event will the hedge fund receive any research information or recommendations in advance of the information that New Constructs provides to its other clients.

DISCLAIMERS

The information and opinions presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or solicitation of an offer to buy or sell securities or other financial instruments. New Constructs has not taken any steps to ensure that the securities referred to in this report are suitable for any particular investor and nothing in this report constitutes investment, legal, accounting or tax advice. This report includes general information that does not take into account your individual circumstance, financial situation or needs, nor does it represent a personal recommendation to you. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about any such investments or investment services.

Information and opinions presented in this report have been obtained or derived from sources believed by New Constructs to be reliable, but New Constructs makes no representation as to their accuracy, authority, usefulness, reliability, timeliness or completeness. New Constructs accepts no liability for loss arising from the use of the information presented in this report, and New Constructs makes no warranty as to results that may be obtained from the information presented in this report. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information and opinions contained in this report reflect a judgment at its original date of publication by New Constructs and are subject to change without notice. New Constructs may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and New Constructs is under no obligation to insure that such other reports are brought to the attention of any recipient of this report.

New Constructs' reports are intended for distribution to its professional and institutional investor customers. Recipients who are not professionals or institutional investor customers of New Constructs should seek the advice of their independent financial advisor prior to making any investment decision or for any necessary explanation of its contents.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would be subject New Constructs to any registration or licensing requirement within such jurisdiction.

This report may provide the addresses of websites. Except to the extent to which the report refers to New Constructs own website material, New Constructs has not reviewed the linked site and takes no responsibility for the content therein. Such address or hyperlink (including addresses or hyperlinks to New Constructs own website material) is provided solely for your convenience and the information and content of the linked site do not in any way form part of this report. Accessing such websites or following such hyperlink through this report shall be at your own risk.

All material in this report is the property of, and under copyright, of New Constructs. None of the contents, nor any copy of it, may be altered in any way, copied, or distributed or transmitted to any other party without the prior express written consent of New Constructs. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of New Constructs.

Copyright New Constructs, LLC 2003 through the present date. All rights reserved.