True Fund Costs: Small Cap Blend Style

This report focuses on providing investors the true costs incurred when investing in Small Cap Blend ETFs and mutual funds. A key component of our fund ratings, Total Annual Cost (TAC) accounts for all the costs borne by investors, including transaction costs and many other fees. Expense ratios often drastically understate the total cost of a fund.

Figure 1 shows ETFs and mutual funds in the Small Cap Blend style whose expense ratios understate their TACs by the most.

Figure 1: Funds With Most Misleading Expense Ratios

Ticker	Name	Total Annual Costs (TAC)	Expense Ratio	Difference Between TAC & Expense Ratio
ETFs: Most Misleading Expense Ratios				
SIZ	QuantShares U.S. Market Neutral Size Fund	1.66%	1.49%	**0.17%**
SAA	ProShares Ultra SmallCap600 ETF	1.06%	0.95%	**0.11%**
UVT	ProShares Ultra Russell2000 Value	1.06%	0.95%	**0.11%**
UWM	ProShares Ultra Russell2000 ETF	1.06%	0.95%	**0.11%**
URTY	ProShares UltraPro Russell2000	1.06%	0.95%	**0.11%**
Mutual Funds: Most Misleading Expense Ratios				
EMCAX	Mutual Fund Trust Empiric 2500 Fund	8.72%	2.02%	**6.70%**
SZCAX	Deutsche Small Cap Core Fund	6.91%	1.43%	**5.48%**
MOFQX	Marketocracy Masters 100 Fund	6.99%	2.06%	**4.93%**
CTVAX	Catalyst Small-Cap Insider Buying Fund	6.23%	1.66%	**4.57%**
EMCCX	Mutual Fund Trust Empiric 2500 Fund	7.30%	2.77%	**4.53%**

Source: New Constructs, LLC and company filings

QuantShares U.S. Market Neutral Size Fund (SIZ) is the Small Cap Blend ETF with the greatest disparity between its TAC and expense ratio. While the difference seems small now, over time that difference adds up. More importantly, investors deserve to know the true costs of being in any ETF. Mutual Fund Trust Empiric 2500 Fund (EMCAX) has the most misleading expense ratio amongst mutual funds in the style as its expense ratio is 6.70 percentage points lower than its actual Total Annual Costs.

6.70 percentage points is a large difference. Over just ten years, 6.70% compounds to 92%. I think most investors would like to know about such a large additional cost before they put their money into EMCAX.

The key takeaway for fund investors here is that they should focus on the Total Annual Cost of funds rather than just the expense ratios, which can significantly understate the costs of being in a fund.

The average TAC for ETFs in this style is 0.56% and for mutual funds it is 2.36%. We recommend investors focus on funds with TACs that are below these averages. I strongly recommend that investors avoid funds that charge far above-average TACs as it will be extremely difficult for these funds to consistently earn returns above a less-expensive benchmark.

Figure 2 shows the number of ETFs and mutual funds with TACs above the average and below the average.

Figure 2: Number of Funds With Above and Below Average Total Annual Costs (TACs)

ETFs With Below Average TACs	ETFs With Above Average TACs	Mutual Funds With Below Average TACs	Mutual Funds With Above Average TACs
17	12	451	310

Source: New Constructs, LLC and company filings

Our Best & Worst ETFs and Mutual Funds: Small Cap Blend Style report reveals our predictive ratings on the best and worst funds in the style.

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

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