



## How to Avoid the Worst Style Mutual Funds

Why are there so many mutual funds? The answer is: because mutual fund providers are making lots of money selling them. The number of mutual funds has little to do with serving your best interests. Below are three red flags you can use to avoid the worst mutual funds:

### 1. Inadequate Liquidity

This is the easiest issue to avoid, and my advice is simple: Avoid all mutual funds with less than \$100 million in assets. Low levels of liquidity can lead to a discrepancy between the price of the mutual fund and the underlying value of the securities it holds. In addition, low asset levels tend to mean lower volume in the mutual fund and large bid-ask spreads.

### 2. High Fees

Mutual funds should be cheap, but not all of them are. The first step here is to know what is cheap and expensive.

To ensure you are paying at or below average fees, invest only in mutual funds with total annual costs below 2.05%, which is the average total annual cost of the 7221 U.S. equity mutual funds I cover.

Figure 1 shows the most and least expensive style mutual funds in the U.S. equity universe based on [total annual costs](#). Rydex provides two of the most expensive mutual funds while Fidelity mutual funds are among the cheapest.

**Figure 1: 5 Least and Most-Expensive Style Mutual Funds**

Ticker	Name	Style	Total Annual Cost	Overall Rating
<b>Most Expensive</b>				
AMREX	American Growth Fund Series Two	All Cap Blend	9.41%	2 Stars
EMCAX	Mutual Fund Series Empirical 2500 Fund	Small Cap Blend	8.72%	2 Stars
RYRUX	Rydex Dynamic Funds: Russell 2000 2x	All Cap Blend	8.60%	1 Star
RYLDX	Rydex Dow 2x Strategy Fund	All Cap Blend	8.54%	2 Stars
NYSAX	Nysa Trust Fund	Small Cap Growth	8.18%	1 Star
<b>Least Expensive</b>				
FXAIX	Fidelity Spartan 500 Index Fund	Large Cap Blend	0.03%	5 Stars
VIIIX	Vanguard Institutional Index Fund	Large Cap Blend	0.03%	5 Stars
VITPX	Vanguard Institutional Total Stock Market	All Cap Blend	0.04%	5 Stars
FFSMX	Fidelity Spartan Total Market Index Fund	All Cap Blend	0.04%	5 Stars
FSKAX	Fidelity Spartan Total Market Index Fund	All Cap Blend	0.04%	5 Stars

Sources: New Constructs, LLC and company filings

However, investors need not pay high fees for good holdings. Vanguard Fenway Equity Income Fund (VEIRX) is my second rated style mutual fund and earns my Very Attractive (5-star) rating. It also has low total annual costs of only 0.30%.

### 3. Poor Holdings

This step is by far the hardest, 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	Overall Rating
ARVIX	Aston River Road Independent Value Fund	Small Cap Value	Very Dangerous	1 Star
SWMSX	Schwab Laudus Small Cap MarketMasters Fund	Small Cap Growth	Very Dangerous	1 Star
MOFQX	Marketocracy Masters 100 Fund	Small Cap Blend	Very Dangerous	1 Star
MYIMX	Victory Integrity Mid Cap Value Fund	Mid Cap Value	Dangerous	2 Stars
EFCIX	Emerald Insights Fund	Mid Cap Growth	Dangerous	1 Star
HDPCX	Hodges Pure Contrarian Fund	Mid Cap Blend	Dangerous	1 Star
LHVIX	Linde Hansen Contrarian Value Fund	All Cap Value	Dangerous	2 Stars
DBEGX	DoubleLine Equities Growth Fund	All Cap Growth	Dangerous	1 Star
SIAIX	Snow Capital Inflation Advantaged Equities Fund	Large Cap Growth	Dangerous	2 Stars
NAAIX	Nationwide Portfolio Completion Fund	All Cap Blend	Very Dangerous	1 Star
AIOPX	Cavanal Hill Opportunistic Fund	Large Cap Blend	Dangerous	2 Stars
TILDY	Centaur Total Return Fund	Large Cap Value	Dangerous	1 Star

Sources: New Constructs, LLC and company filings

No one provider appears more often than any other providers in Figure 2, which would mean that they offer the most mutual funds with the worst holdings.

My [overall ratings on mutual funds](#) are based primarily on my [stock ratings](#) of their holdings. New Constructs covers over 3000 stocks and is known for the due diligence done on each stock we cover.

### The Danger Within

Buying a mutual fund without analyzing its holdings is like buying a stock without analyzing its business 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' performance.

PERFORMANCE OF MUTUAL FUND'S HOLDINGS = PERFORMANCE OF MUTUAL FUND

*Kyle Guske II contributed to this article*

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



## *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. See 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 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.