Investment Style Rankings For ETFs, Mutual Funds & Stocks

At the beginning of the first quarter of 2015, only the Large Cap Blend style earns an Attractive-or-better rating. Our style ratings are based on the aggregation of our fund ratings for every ETF and mutual fund in each style.

If you are looking for style funds that hold quality stocks, look no further than the Large Cap Blend and Large Cap Value styles. These styles house the most Attractive-or-better rated funds. Figures 4 through 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.

Figure 1: Ratings For All Investment Styles

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

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. 2166 style ETFs and mutual funds meet these requirements, which is only 33% of all style ETFs and mutual funds.

State Street SPDR Dow Jones Industrial Average (DIA) is the top Large Cap Value ETF and overall top rated style ETF. It gets our Very Attractive rating by allocating over 49% of its value to Attractive-or-better-rated stocks.

Johnson & Johnson (JNJ) is one of our favorite stocks held by DIA and earns a Very Attractive rating. Johnson & Johnson has long been one of our favorites and was even our stock pick of the week in November 2014. Since that call, our sentiment on this company has only been strengthened. On a trailing twelve-month (TTM) basis, Johnson & Johnson has grown after-tax profit (NOPAT) by 20% year over year, increased its return on invested capital (ROIC) to 19% from 15% in 2013, and increased its free cash flow (FCF) to $24 billion. This growth is part of a long, ongoing trend for Johnson & Johnson: Over the past decade, the company has grown NOPAT by 10% compounded annually, grown FCF from $8 billion in 2004, and generated positive and increasing economic earnings for the last 16 years.

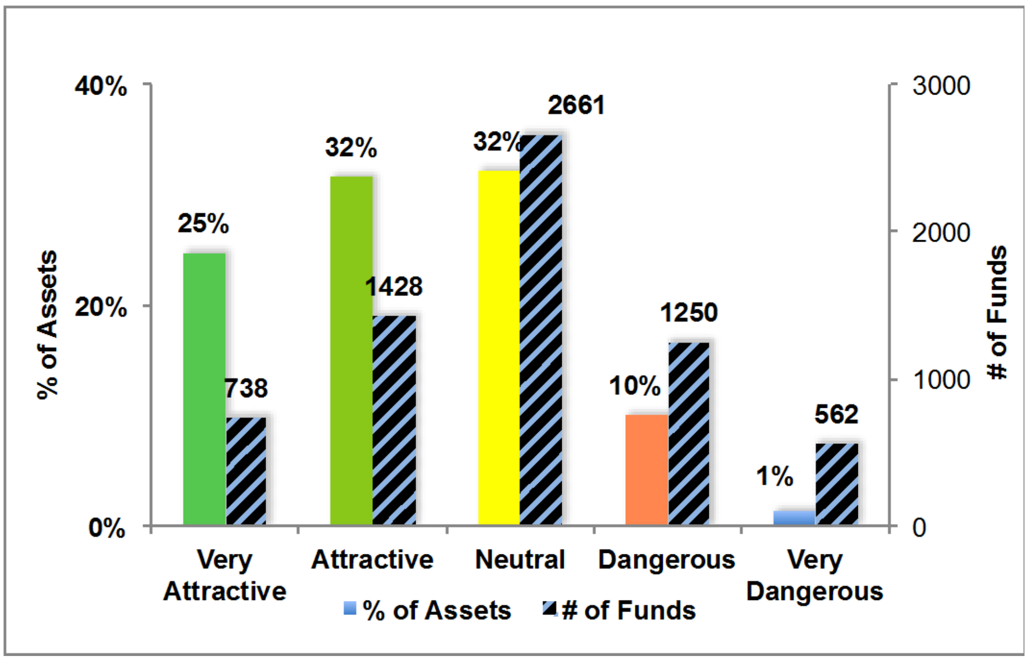
These impressive fundamentals support a stock price well above JNJ's current price. At its current level of ~$102/share, JNJ has a price to economic book value (PEBV) ratio of 0.9. This ratio implies the market expects Johnson & Johnson's NOPAT to permanently decline by 10%. This expectation flies in the face of the 20% growth seen most recently and of the 10% historical NOPAT growth rate over the past decade. JNJ is providing a great entry point at its current discounted price.

Northern Lights Footprints Discover Value Fund (DAVAX) is our worst All Cap Blend mutual fund, and overall worst rated mutual fund. It gets our Very Dangerous rating by allocating over 78% of its value to Neutral-or-worse-rated stocks, and to make matters worse, charges investors annual costs of 5.45%.

Sigma Designs (SIGM) is one of my least favorite stocks held by DAVAX and earns our Dangerous rating. Sigma, a provider of system chips for TVs, set top boxes, and home automation devices, has a poor track record and wildly inflated valuation. Since 2010, Sigma's NOPAT has been in sharp decline. After earnings $27 million in NOPAT in 2010, Sigma lost -$5 million in 2013, and on a current TTM basis sits at -$16 million. Sigma's ROIC has followed this path, declining to -6% TTM, down from 1% in 2010. Sigma has also generated negative economic earnings each of the last five years. Despite the poor state of the company in regards to its fundamentals, the company is overvalued. In order to justify its current price of ~$7/share, Sigma must grow revenue by 20% compounded annually for the next 20 years. This seems unlikely given that over the past five years, Sigma's revenue has actually declined by 1% compounded annually. Avoid Sigma Designs, especially in the semiconductor industry, which offers many better investments.

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 almost 10 times that of Very Attractive funds.

Figure 3: Predictive Rating Distribution Stats

	Very Attractive	Attractive	Neutral	Dangerous	Very Dangerous
# of ETFs & Funds	738	1428	2661	1250	562
% of ETFs & Funds	11%	22%	40%	19%	8%
% of TNA	25%	32%	32%	10%	1%
Avg TAC	0.32%	0.76%	1.52%	1.35%	3.02%

* Avg TAC = Weighted Average Total Annual Costs

Source: New Constructs, LLC and company filings

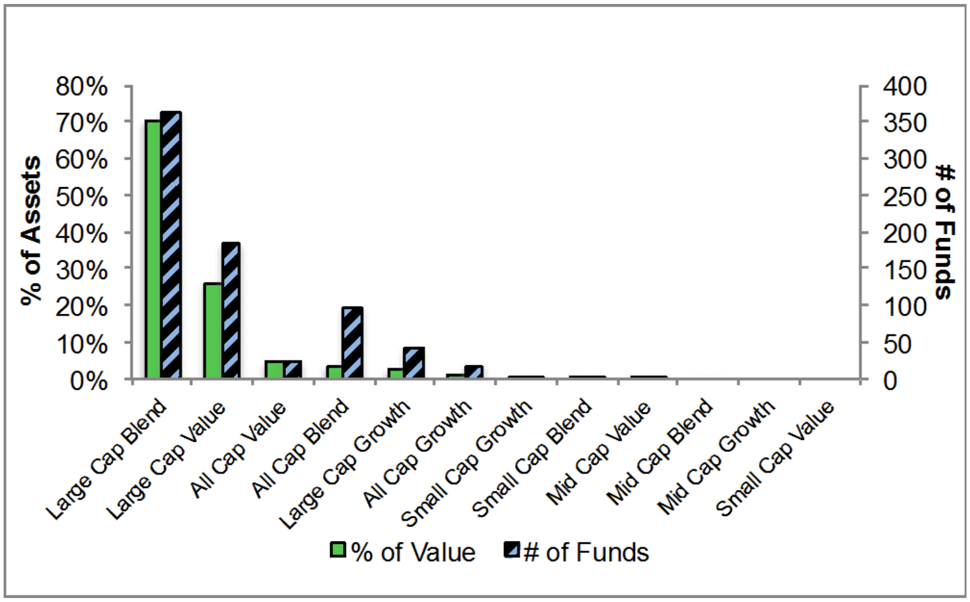
This table shows that only the best of the best funds get our Very Attractive Rating: they must hold good stocks AND have low costs. Investors deserve to have the best of both and we are here to give it to them.

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 738 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

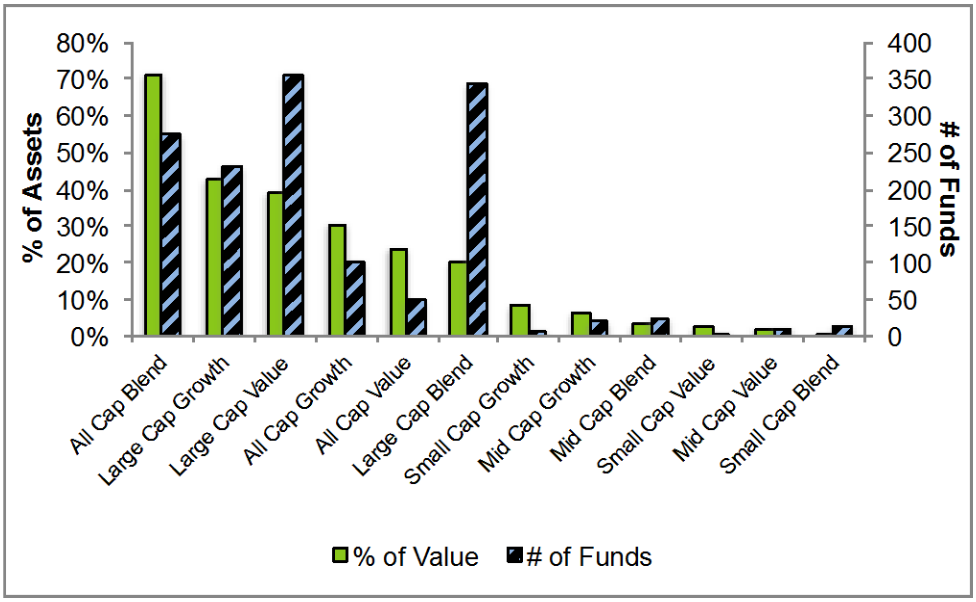
Style	% of Style Assets	# of Very Attractive Funds	% of Very Attractive Funds in Style
Large Cap Blend	70%	364	38%
Large Cap Value	26%	184	20%
All Cap Value	5%	24	9%
All Cap Blend	4%	98	12%
Large Cap Growth	2%	42	6%
All Cap Growth	1%	19	4%
Small Cap Growth	0%	2	0%
Small Cap Blend	0%	1	0%
Mid Cap Value	0%	4	2%
Mid Cap Blend	0%	0	0%
Mid Cap Growth	0%	0	0%
Small Cap Value	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 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.

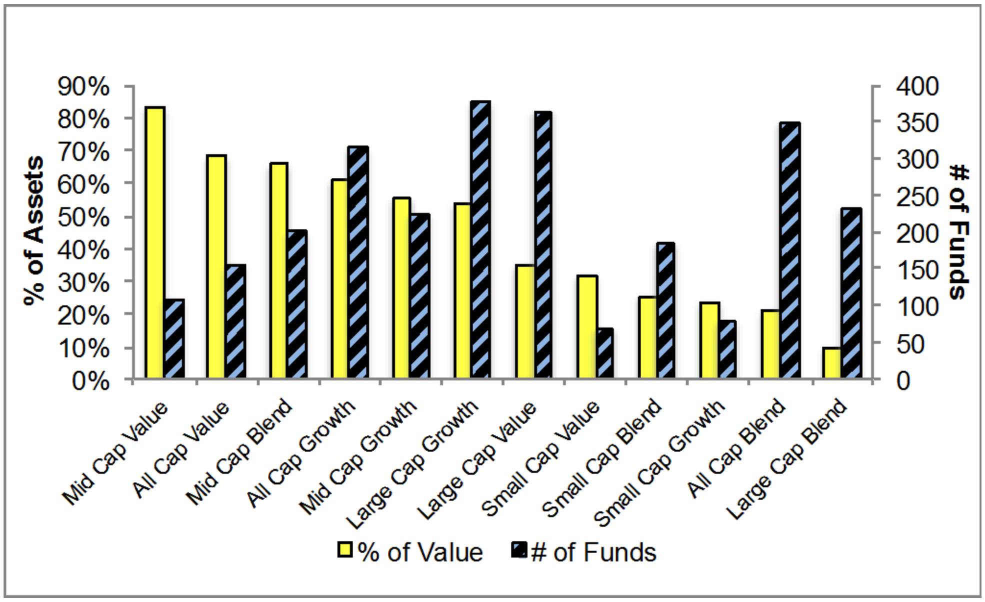
Figure 7: Attractive ETFs & Mutual Funds by Investment Style

Style	% of Style Assets	# of Attractive Funds	% of Attractive Funds in Style
All Cap Blend	71%	273	33%
Large Cap Growth	43%	231	34%
Large Cap Value	39%	356	38%
All Cap Growth	30%	101	19%
All Cap Value	24%	48	19%
Large Cap Blend	20%	343	36%
Small Cap Growth	8%	7	1%
Mid Cap Growth	6%	19	5%
Mid Cap Blend	3%	23	7%
Small Cap Value	2%	2	1%
Mid Cap Value	2%	11	6%
Small Cap Blend	1%	14	2%

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

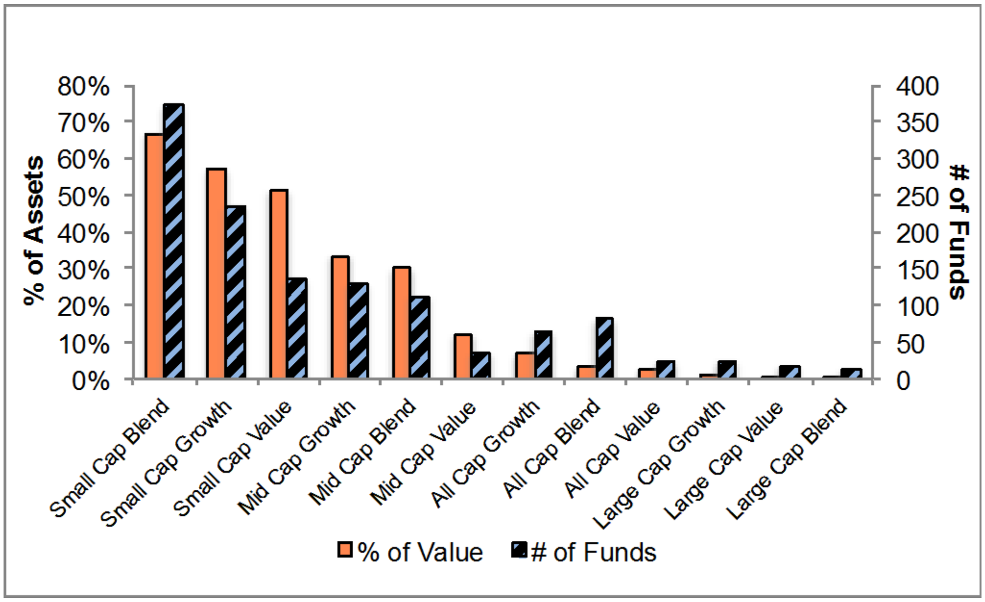
Style	% of Style Assets	# of Neutral Funds	% of Neutral Funds in Style
Mid Cap Value	83%	110	65%
All Cap Value	68%	156	60%
Mid Cap Blend	66%	201	57%
All Cap Growth	61%	315	60%
Mid Cap Growth	55%	225	55%
Large Cap Growth	54%	376	55%
Large Cap Value	35%	364	39%
Small Cap Value	32%	69	24%
Small Cap Blend	25%	185	25%
Small Cap Growth	24%	79	16%
All Cap Blend	21%	349	42%
Large Cap Blend	10%	232	24%

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.

Take note of the many Dangerous rated Small Cap ETFs and mutual funds.

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.

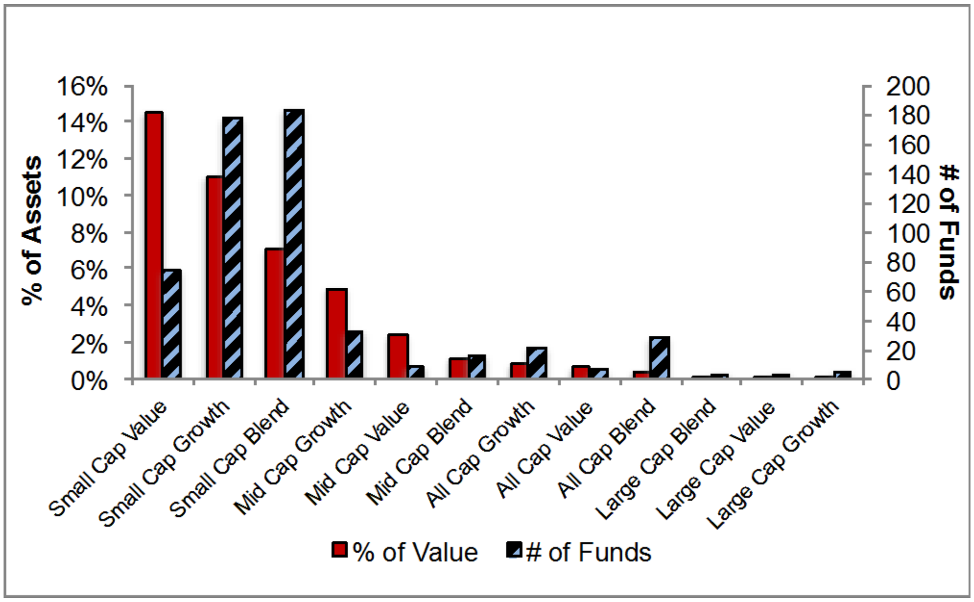
Figure 11: Dangerous ETFs & Mutual Funds by Investment Style

Style	% of Style Assets	# of Dangerous Funds	% of Dangerous Funds in Style
Small Cap Blend	67%	372	49%
Small Cap Growth	57%	236	47%
Small Cap Value	51%	137	49%
Mid Cap Growth	34%	130	32%
Mid Cap Blend	30%	113	32%
Mid Cap Value	12%	36	21%
All Cap Growth	7%	64	12%
All Cap Blend	3%	81	10%
All Cap Value	3%	24	9%
Large Cap Growth	1%	25	4%
Large Cap Value	0%	19	2%
Large Cap Blend	0%	13	1%

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 Value	15%	74	26%
Small Cap Growth	11%	177	35%
Small Cap Blend	7%	183	24%
Mid Cap Growth	5%	33	8%
Mid Cap Value	2%	9	5%
Mid Cap Blend	1%	16	5%
All Cap Growth	1%	22	4%
All Cap Value	1%	7	3%
All Cap Blend	0%	28	3%
Large Cap Blend	0%	4	0%
Large Cap Value	0%	4	0%
Large Cap Growth	0%	5	1%

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						Total Annual Costs
	Business Strength		Valuation			Cash Allocation	
	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 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.