



How To Find the Best Style Mutual Funds

Finding the best mutual funds is an increasingly difficult task in a world with so many to choose from. How can you pick with so many choices available?

Don't Trust Mutual Fund Labels

There are at least 871 different Large Cap Blend mutual funds and at least 5971 mutual funds across twelve styles. Do investors need 500+ choices on average per style? How different can the mutual funds be?

Those 871 Large Cap Blend mutual funds are very different. With anywhere from 18 to 1347 holdings, many of these Large Cap Blend mutual funds have drastically different portfolios, creating drastically different investment implications.

The same is true for the mutual funds in any other style, as each offers a very different mix of good and bad stocks. Large Cap Value ranks first for stock selection. Small Cap Blend ranks last. Details on the [Best & Worst mutual funds in each style are here.](#)

A Recipe for Paralysis By Analysis

We firmly believe mutual funds for a given style should not all be that different. We think the large number of Large Cap Blend (or any other) style mutual funds hurts investors more than it helps because too many options can be paralyzing. It is simply not possible for the majority of investors to properly assess the quality of so many mutual funds. Analyzing mutual funds, done with the proper diligence, is far more difficult than analyzing stocks because it means analyzing all the stocks within each mutual fund. As stated above, that can be as many as 1347 stocks, and sometimes even more, for one mutual fund.

Any investor worth his salt recognizes that analyzing the holdings of a mutual fund is critical to finding the best mutual fund. Figure 1 shows our top rated mutual fund for each style.

Figure 1: The Best Mutual Fund in Each Style

Ticker	Name	Investment Style	Assets (\$mm)
JNVIX	Trust for Professional Managers Jensen Quality Value	All Cap Blend	\$33
DPUYX	Strategic Funds Dreyfus U.S. Equity Fund	All Cap Growth	\$666
LSVMX	Advisors' Inner Circle LSV US Managed Volatility Fund	All Cap Value	\$20
CMIIX	Calvert Large Cap Core Portfolio	Large Cap Blend	\$202
FLGEX	Fidelity Large Cap Growth Enhanced Index Fund	Large Cap Growth	\$432
VDADX	Vanguard Dividend Appreciation Index Fund	Large Cap Value	\$24,102
LSIRX	Legg Mason Partners ClearBridge Mid Cap Core Fund	Mid Cap Blend	\$1,648
IMIDX	Congress Mid Cap Growth Fund	Mid Cap Growth	\$256
HAMVX	Harbor Funds Mid Cap Value Fund	Mid Cap Value	\$577
WAMFX	Boston Trust Walden Mid Cap Fund	Small Cap Blend	\$35
VSCRX	Virtus Equity Small-Cap Core Fund	Small Cap Growth	\$333
RSEIX	Royce Special Equity Fund	Small Cap Value	\$1,854

Sources: New Constructs, LLC and company filings

How To Avoid "The Danger Within"

Why do you need to know the holdings of mutual funds before you buy?

You need to be sure you do not buy a fund that might blow up. Buying a fund without analyzing its holdings is like buying a stock without analyzing its business and finances. No matter how cheap, if it holds bad stocks, the



mutual fund's performance will be bad. Don't just take our word for it, see [what Barron's says](#) on this matter.

PERFORMANCE OF FUND'S HOLDINGS = PERFORMANCE OF FUND

If Only Investors Could Find Funds Rated by Their Holdings...

New Constructs covers over 3000 stocks and is known for the due diligence we do for each stock we cover. Accordingly, our coverage of mutual funds leverages the diligence we do on each stock by rating mutual funds based on the aggregated ratings of the stocks each mutual fund holds.

Calvert Large Cap Core Portfolio (CMIIX) is the top-rated Large Cap Blend mutual fund and the overall best fund of the 5971 style mutual funds that we cover.

The worst mutual fund in Figure 1 is Harbor Funds Mid Cap Value Fund (HAMVX) which gets a Neutral rating. One would think mutual fund providers could do better for this style.

Disclosure: David Trainer and Max Lee receive no compensation to write about any specific stock, style, or theme.



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How New Constructs Creates Value for Clients

We find it. You benefit. Cutting-edge technology enables us to scale our [forensics accounting expertise](#) across 3000+ stocks. We shine a light in the dark corners of SEC filings so our clients can make safer, more informed decisions.

Our [stock rating methodology](#) instantly informs you of the quality of the business and the fairness of the stock's valuation. We do the diligence on earnings quality and valuation so you don't have to.

In-depth risk/reward analysis underpins our ratings. Our rating methodology grades every stock, ETF, and mutual fund according to what we believe are the 5 most important criteria for assessing the quality of an equity. Each grade reflects the balance of potential risk and reward of buying that equity. Our analysis results in the 5 ratings described below. Very Attractive and Attractive correspond to a "Buy" rating, Very Dangerous and Dangerous correspond to a "Sell" rating, while Neutral corresponds to a "Hold" rating.

QUESTION: Why shouldn't fund research be as good as stock research? Why should fund investors rely on backward-looking price trends?

ANSWER: They should not.

Don't judge a fund by its cover. Take a look inside at its holdings and understand the quality of earnings and valuation of the stocks it holds. We enable you to choose the best fund based on its stock-picking merits so you do not have to rely solely on backward-looking technical metrics.

The drivers of our [forward-looking fund ratings](#) are Portfolio Management (i.e. the aggregated ratings of its holdings) and Total Annual Costs. The Total Annual Costs Rating ([details here](#)) captures the all-in cost of being in a fund over a 3-year holding period, the average period for all fund investors.

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](#).

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