ETF & Mutual Fund Rankings: Mid Cap Value Style

The Mid Cap Value style ranks seventh out of the 12 fund styles as detailed in our 3Q15 Style Ratings for ETFs and Mutual Funds report. It gets our Neutral rating, which is based on an aggregation of ratings of 15 ETFs and 141 mutual funds in the Mid Cap Value style as of July 20, 2015. See a recap of our 2Q15 Style Ratings here.

Figures 1 and 2 show the five best and worst-rated ETFs and mutual funds in the style. Not all Mid Cap Value style ETFs and mutual funds are created the same. The number of holdings varies widely (from 39 to 559). This variation creates drastically different investment implications and, therefore, ratings.

Investors seeking exposure to the Mid Cap Value style should buy one of the Attractive-or-better rated ETFs or mutual funds from Figures 1 and 2.

Figure 1: ETFs with the Best & Worst Ratings – Top 5

	Allocation of ETF Holdings			
Ticker	Attractive-or-better Stocks	Neutral Stocks	Dangerous-or-worse Stocks	Predictive Rating
Best ETFs				
SYLD	33%	40%	24%	**Very Attractive**
JKI	21%	43%	33%	**Neutral**
PEY	21%	54%	25%	**Neutral**
VOE	17%	38%	40%	**Neutral**
MDYV	9%	47%	41%	**Neutral**
Worst ETFs				
IWS	13%	36%	46%	**Neutral**
IJJ	9%	47%	41%	**Neutral**
DON	12%	46%	39%	**Neutral**
PXMV	13%	39%	43%	**Neutral**
RWK	8%	52%	38%	**Neutral**

* Best ETFs exclude ETFs with TNAs less than $100 million for inadequate liquidity.

Sources: New Constructs, LLC and company filings

Four ETFs are excluded from Figure 1 because their total net assets (TNA) are below $100 million and do not meet our liquidity minimums. See our screener for more details.

Figure 2: Mutual Funds with the Best & Worst Ratings – Top 5

	Allocation of Mutual Fund Holdings			
Ticker	**Attractive-or-better Stocks**	**Neutral Stocks**	**Dangerous-or-worse Stocks**	**Predictive Rating**
Best Mutual Funds				
HAMVX	22%	43%	31%	**Neutral**
MLUZX	17%	45%	34%	**Neutral**
MVTIX	28%	31%	26%	**Neutral**
APHQX	31%	42%	16%	**Neutral**
MLUSX	17%	45%	34%	**Neutral**
Worst Mutual Funds				
MIDVX	6%	37%	49%	**Very Dangerous**
TNVAX	2%	20%	47%	**Very Dangerous**
IIVAX	11%	36%	44%	**Very Dangerous**
FASEX	13%	33%	52%	**Very Dangerous**
TCVAX	9%	37%	51%	**Very Dangerous**

* Best mutual funds exclude funds with TNAs less than $100 million for inadequate liquidity.

Sources: New Constructs, LLC and company filings

Nationwide Herndon Mid Cap Value Fund (NWWQX, NWWPX, NWWNX) is excluded from Figure 2 because its total net assets (TNA) are below $100 million and do not meet our liquidity minimums.

Cambria Shareholder Yield ETF (SYLD) is the top-rated Mid Cap Value ETF and Harbor Mid Cap Value Fund (HAMVX) is the top-rated Mid Cap Value mutual fund. SYLD earns a Very Attractive rating and HAMVX earns a Neutral rating.

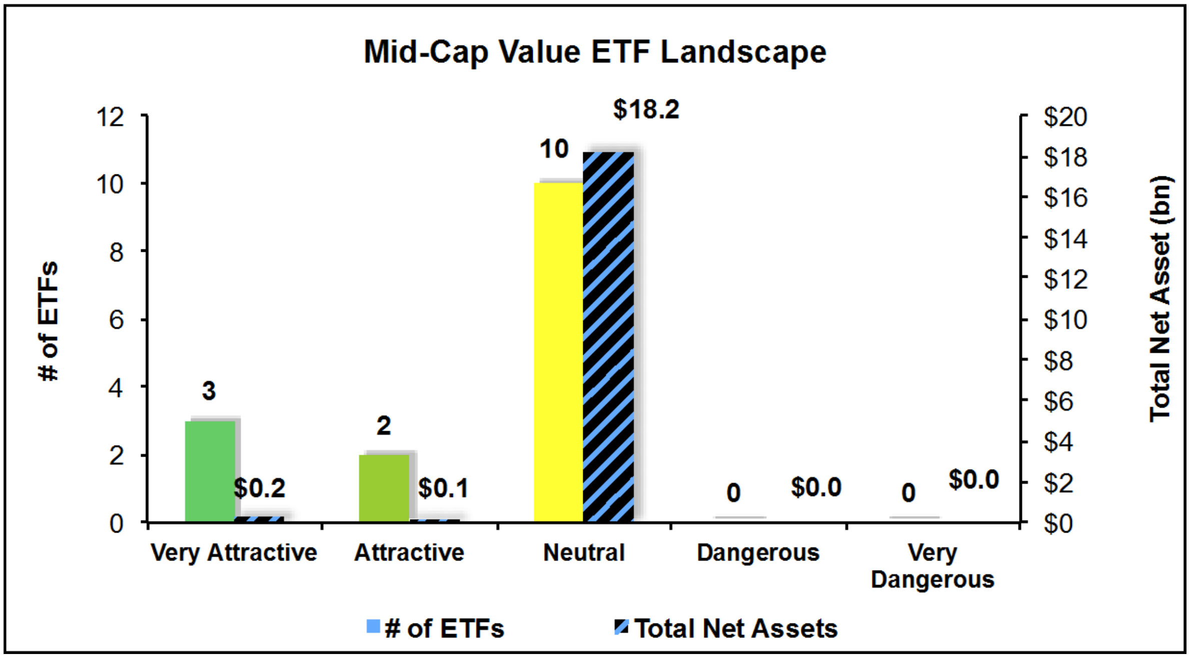
RevenueShares Mid Cap Fund ETF (RWK) is the worst-rated Mid Cap Value ETF and Touchstone Mid Cap Value Fund (TCVAX) is the worst-rated Mid Cap Value mutual fund. RWK earns a Neutral rating and TCVAX earns a Very Dangerous rating.

The Gap, Inc. (GPS: $37/share) is one of our favorite stocks held by Mid Cap Value funds and earns our Very Attractive rating. Since 2008, the company has grown after-tax profit (NOPAT) by 5% compounded annually. The company currently earns a top-quintile return on invested capital (ROIC) of 16%, which is up from 12% in 2008. Operating efficiency has improved and the NOPAT margin has risen from 7% in 2012 to the current 9%. Despite these improvements, the stock remains undervalued. At the current price of $37/share, Gap has a price to economic book value (PEBV) of 0.9. This ratio implies that the market expects the company's profits to permanently decline by 10%. If Gap can grow NOPAT by just 3% for the next five years, the stock is worth $48/share – a 30% upside.

Navios Maritime Holdings, Inc. (NM: $3/share) is one of our least favorite stocks held by Mid Cap Value funds and earns our Dangerous rating. Since 2011, the company's NOPAT has declined by 23% compounded annually. ROIC halved from 6% to a bottom-quintile 3% over the same time period. In addition, Navios' free cash flow yield is a subpar -3%. The market has not yet caught on to Navios' poor underlying fundamentals, and the stock remains overvalued. To justify its current price of $3/share, the company must grow NOPAT by 7% compounded annually for the next 11 years. This level of NOPAT growth might not seem like much, but considering the recent trend of declining profits and that Navios has only grown NOPAT once in consecutive years in its history, we believe expectations in the current stock price are overly optimistic.

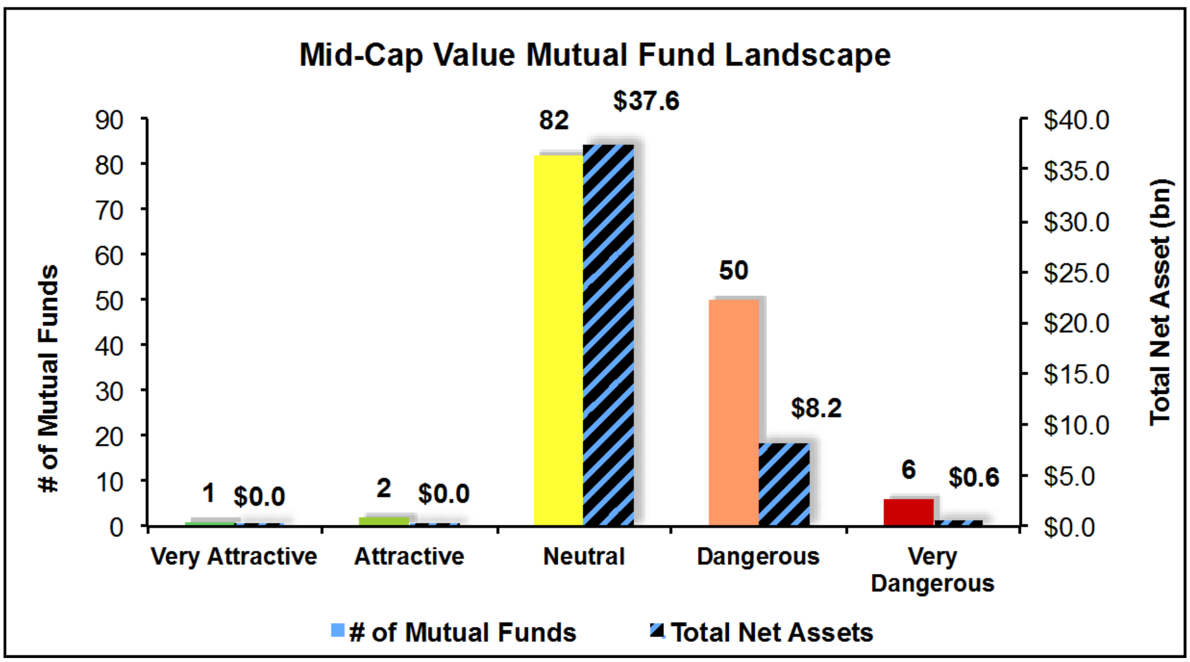
Figures 3 and 4 show the rating landscape of all Mid Cap Value ETFs and mutual funds.

Figure 3: Separating the Best ETFs From the Worst Funds



Sources: New Constructs, LLC and company filings

Figure 4: Separating the Best Mutual Funds From the Worst Funds



Sources: New Constructs, LLC and company filings

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

New Constructs® – Profile

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

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