



How To Find the Best Style ETFs

Finding the best ETFs 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 ETF Labels

There are at least 75 different All Cap Blend ETFs and at least 297 ETFs across twelve styles. Do investors need 24+ choices on average per style? How different can the ETFs be?

Those 75 All Cap Blend ETFs are very different. With anywhere from 20 to 3738 holdings, many of these All Cap Blend ETFs have drastically different portfolios, creating drastically different investment implications.

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

A Recipe for Paralysis By Analysis

We think the large number of All Cap Blend (or any other) style ETFs 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 ETFs. Analyzing ETFs, done with the proper diligence, is far more difficult than analyzing stocks because it means analyzing all the stocks within each ETF. As stated above, that can be as many as 3737 stocks, and sometimes even more, for one ETF.

Any investor focused on fulfilling fiduciary duties recognizes that analyzing the holdings of an ETF is critical to finding the best ETF. Figure 1 shows our top rated ETF for each style.

Figure 1: The Best ETF in Each Style

Ticker	Name	Investment Style	Assets (\$mm)
SPYB	State Street SPDR S&P 500 Buyback ETF	All Cap Blend	\$9
QVM	Arrow QVM Equity Factor ETF	All Cap Growth	\$5
CDC	Victory GEMP US EQ Income Enhanced Volatility Index	All Cap Value	\$101
QLC	FlexShares US Quality Large Cap Index Fund	Large Cap Blend	\$2
VLML	Direxion Value Line Mid- and Large-Cap High Dividend	Large Cap Growth	\$8
QDYN	FlexShares Quality Dividend Dynamic Index Fund	Large Cap Value	\$58
QVAL	Alpha Architect ValueShares US Quantitative Value ETF	Mid Cap Blend	\$43
VLSM	Direxion Value Line Small- and Mid-Cap High Dividend	Mid Cap Growth	\$12
VUSE	Vident Core US Equity Fund	Mid Cap Value	\$396
FDM	First Trust Dow Jones Select MicroCap Index Fund	Small Cap Blend	\$46
SMCP	AlphaMark Actively Managed Small Cap ETF	Small Cap Growth	\$25
FNK	First Trust Mid Cap Value AlphaDEX Fund	Small Cap Value	\$36

Sources: New Constructs, LLC and company filings

Arrow QVM Equity Factor (QVM) ranks first, FlexShares Quality Dividend Dynamic Index (QDYN) ranks second, and State Street SPDR S&P 500 Buyback ETF (SPYB) ranks third. Vident Core U.S. Equity Fund (VUSE) ranks last.

How to Avoid "The Danger Within"

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

You need to be sure you do not buy an ETF that might blow up. Buying an ETF 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 ETF's performance will be bad. Don't just take my 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

Our [ETF ratings](#) leverage our [stock coverage](#). We rate ETFs based on the aggregated ratings of the stocks each ETF holds.

State Street SPDR S&P 500 Buyback ETF (SPYB) is the top-rated All Cap Blend ETF and the overall third best ETF of the 297 style ETFs that we cover.

The worst ETF in Figure 1 is First Trust Mid Cap Value AlphaDEX Fund (FNK), which gets a Neutral rating. One would think ETF providers could do better for this style.

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

We find it. You benefit. Cutting-edge technology enables us to scale our [forensic 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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