ETF & Mutual Fund Rankings: Mid Cap Blend Style

The Mid Cap Blend style ranks fifth out of the twelve fund styles as detailed in our 2Q16 Style Ratings for ETFs and Mutual Funds report. Last quarter, the Mid Cap Blend style ranked sixth. It gets our Neutral rating, which is based on aggregation of ratings of 20 ETFs and 377 mutual funds in the Mid Cap Blend style as of May 4, 2016. See a recap of our 1Q16 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 Blend style ETFs and mutual funds are created the same. The number of holdings varies widely (from 14 to 3281). This variation creates drastically different investment implications and, therefore, ratings.

Investors seeking exposure to the Mid Cap Blend 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				
XMLV	16%	48%	35%	Neutral
SCHM	16%	35%	41%	Neutral
VO	18%	37%	40%	Neutral
IJH	14%	40%	40%	Neutral
IVOO	14%	39%	40%	Neutral
Worst ETFs				
RSCO	13%	30%	43%	Neutral
VXF	13%	30%	44%	Neutral
CZA	11%	36%	35%	Neutral
ZSML	15%	31%	44%	Neutral
RYJ	13%	26%	43%	Dangerous

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

Sources: New Constructs, LLC and company filings

Five ETFs are excluded from Figure 1 because total net assets (TNA) are below $100 million and do not meet our liquidity minimums. See our ETF 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				
GTAFX	18%	34%	27%	Attractive
GTAVX	18%	34%	27%	Attractive
CBMSX	23%	43%	25%	Attractive
GTAYX	18%	34%	27%	Attractive
DPSYX	23%	32%	39%	Neutral
Worst Mutual Funds				
VFPAX	14%	14%	37%	Very Dangerous
VWMAX	21%	28%	36%	Very Dangerous
GMVAX	15%	30%	43%	Very Dangerous
MAIMX	12%	36%	45%	Very Dangerous
RBMAX	10%	32%	41%	Very Dangerous

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

Sources: New Constructs, LLC and company filings

Five mutual funds are excluded from Figure 2 because their total net assets (TNA) are below $100 million and do not meet our liquidity minimums. See our mutual fund screener for more details.

PowerShares S&P MidCap Low Volatility Portfolio (XMLV) is the top-rated Mid Cap Blend ETF and Invesco Mid Cap Core Equity Fund (GTAFX) is the top-rated Mid Cap Blend mutual fund. XMLV earns a Neutral rating and GTAFX earns an Attractive rating.

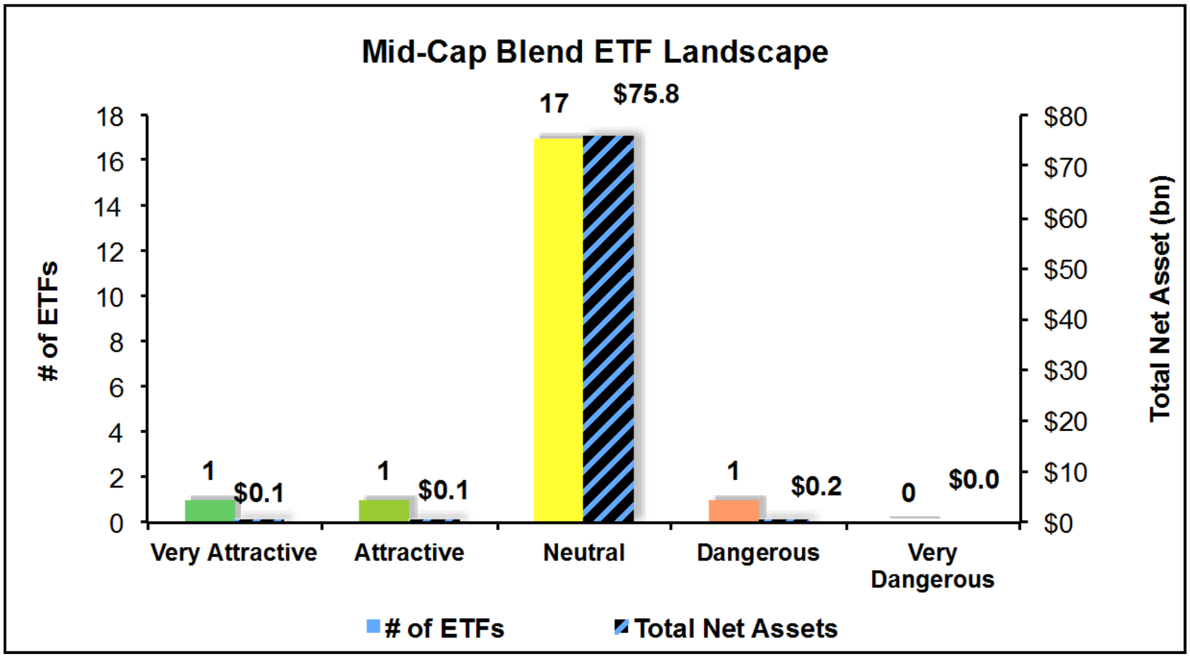
Guggenheim Raymond James SB-1 Equity ETF (RYJ) is the worst rated Mid Cap Blend ETF and RBC Mid Cap Value Fund (RBMAX) is the worst rated Mid Cap Blend mutual fund. RYJ earns a Dangerous rating and RBMAX earns a Very Dangerous rating.

Torchmark Corporation (TMK: $58/share) is one of our favorite stocks held by GTAFX and earns an Attractive rating. Torchmark may not be flashy, but it has been consistent in growing profits. Since 1998, Torchmark has grown after-tax profit (NOPAT) by 4% compounded annually. The company has earned a double-digit return on invested capital (ROIC) every year since 1998 and currently earns a 13% ROIC. Torchmark has also generated positive free cash flow in 17 of the past 18 years with a cumulative $3 billion over the last five years alone. Despite this operational success, TMK remains undervalued. At its current price of $58share, Torchmark has a price-to-economic book value (PEBV) ratio of 1.0. This ratio means that the market expects Torchmark's NOPAT never to meaningfully grow from its current levels. If Torchmark can grow NOPAT by just 4% compounded annually for the next decade, the stock is worth $73/share today – a 26% upside.

United States Cellular Corp (USM: $43/share) is one of our least favorite stocks held by RYJ and earns a Dangerous rating. Since 2006, United States Cellular's NOPAT has declined by 4% compounded annually. Its ROIC has fallen from an already low 5% in 2006 to a bottom-quintile 2% over the last twelve months. Worst of all, USM has never generated positive economic earnings in any year of our model, which dates to 1998. The market has ignored the deterioration of the business and USM is overvalued. To justify its current price, United States Cellular must grow NOPAT by 9% compounded annually for the next 16 years. Given years of profit decline, this expectation seems overly optimistic.

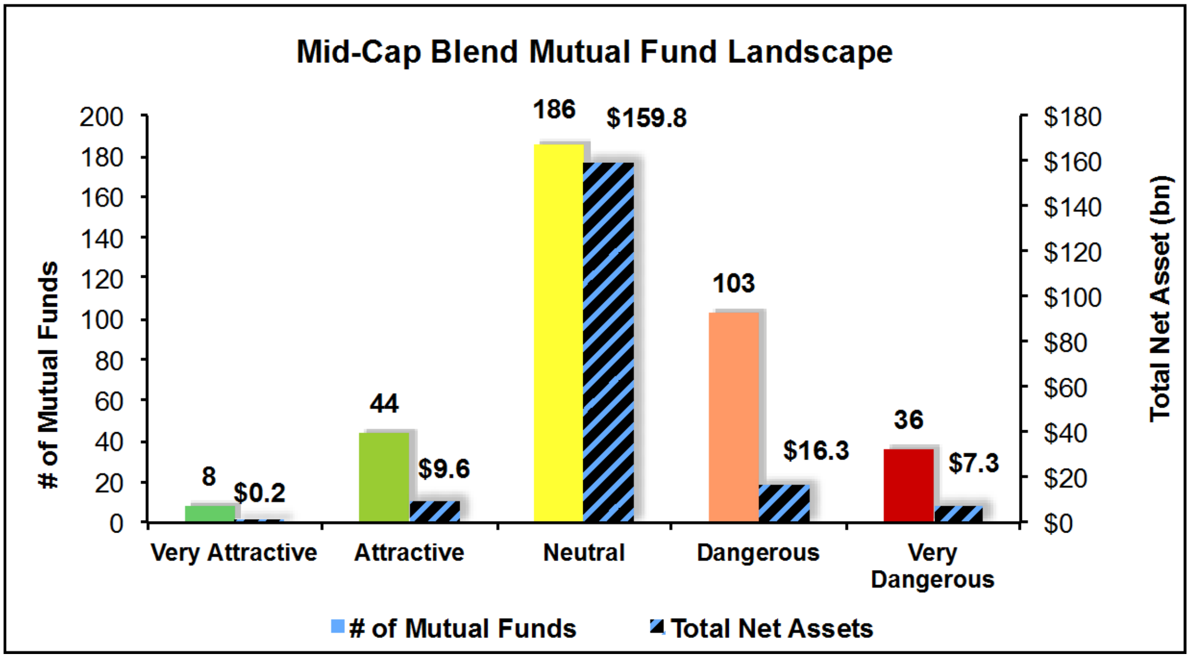
Figures 3 and 4 show the rating landscape of all Mid Cap Blend ETFs and mutual funds.

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 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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