ETF & Mutual Fund Rankings: Mid Cap Growth Style

The Mid Cap Growth style ranks ninth out of the twelve fund styles as detailed in our 2Q16 Style Ratings for ETFs and Mutual Funds report. Last quarter, the Mid Cap Growth style ranked ninth as well. It gets our Dangerous rating, which is based on aggregation of ratings of 10 ETFs and 360 mutual funds in the Mid Cap Growth style as of May 4, 2016. See a recap of our 1Q16 Style Ratings here.

Figure 1 ranks from best to worst the eight mid-cap growth ETFs that meet our liquidity standards and Figure 2 shows the five best and worst rated mid-cap growth mutual funds. Not all Mid Cap Growth style ETFs and mutual funds are created the same. The number of holdings varies widely (from 21 to 1593). This variation creates drastically different investment implications and, therefore, ratings.

Investors seeking exposure to the Mid Cap Growth 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 (only 3)				
BFOR	30%	43%	16%	**Very Attractive**
IJK	13%	42%	38%	**Neutral**
RFG	12%	39%	41%	**Neutral**
Worst ETFs				
MDYG	13%	40%	39%	**Neutral**
IVOG	13%	40%	39%	**Neutral**
FNY	12%	38%	46%	**Neutral**
VOT	14%	39%	42%	**Neutral**
JKH	7%	42%	44%	**Neutral**

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

Sources: New Constructs, LLC and company filings

Validea Market Legends ETF (VALX) and PowerShares DWA NASDAQ Momentum Portfolio (DWAQ) are excluded from Figure 1 because their total net assets (TNA) are below $100 million and do not meet our liquidity minimums.

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

Ticker	Attractive-or-better Stocks	Neutral Stocks	Dangerous-or-worse Stocks	Predictive Rating
Best Mutual Funds				
IMIDX	13%	59%	19%	Very Attractive
CMIDX	13%	59%	19%	Very Attractive
CCPIX	28%	54%	15%	Very Attractive
CCAYX	28%	54%	15%	Very Attractive
CCACX	28%	54%	15%	Attractive
Worst Mutual Funds				
FRSDX	6%	38%	34%	Very Dangerous
FRSGX	9%	23%	51%	Very Dangerous
ETAGX	9%	16%	49%	Very Dangerous
TWNAX	8%	23%	44%	Very Dangerous
TAAGX	6%	32%	45%	Very Dangerous

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

Sources: New Constructs, LLC and company filings

Barron's 400 ETF (BFOR) is the top-rated Mid Cap Growth ETF and Congress Mid Cap Growth Fund (IMIDX) is the top-rated Mid Cap Growth mutual fund. Both earn a Very Attractive rating.

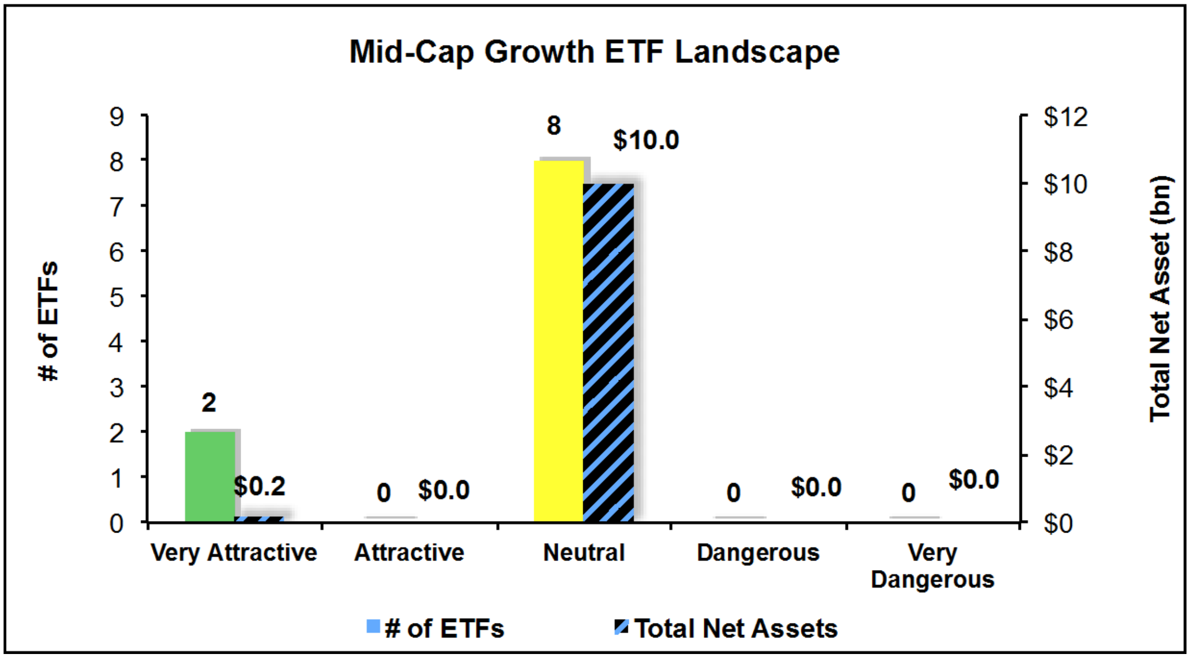
iShares Morningstar Mid-Cap Growth ETF (JKH) is the worst rated Mid Cap Growth ETF and Timothy Plan Aggressive Growth Fund (TAAGX) is the worst rated Mid Cap Growth mutual fund. JKH earns a Neutral rating and TAAGX earns a Very Dangerous rating.

Robert Half International (RHI: $39/share) is one of our favorite stocks held by IMIDX and earns an Attractive rating. Since 1998, Robert Half has grown after-tax profit (NOPAT) by 8% compounded annually. This profit growth has ramped up as of late, as RHI has grown NOPAT by 37% compounded annually over the past five years alone. The company has improved its return on invested capital (ROIC) from 8% in 2010 to a top-quintile 31% over the last twelve months. However, RHI is significantly undervalued. At its current price of $39/share, RHI has a price-to-economic book value (PEBV) ratio of 1.2. This ratio means that the market expects RHI's NOPAT to grow only 20% over its remaining corporate life. If Robert Half International can grow NOPAT by just 9% compounded annually over the next decade, the stock is worth $60/share today – a 54% upside.

CoStar Group (CSGP: $195/share) is one of our least favorite stocks held by TWNAX and earns a Dangerous rating. Over the past five years, CoStar's NOPAT has declined by 5% compounded annually. The company's ROIC has fallen from 9% in 2010 to a bottom-quintile 2% over the last twelve months. Worst of all, in 15 of the last 18 years, CoStar Group has generated negative economic earnings. Despite the deterioration in the business, CSGP is priced for overly optimistic profit growth in the future. To justify its current price of $195/share, CSGP must grow NOPAT by 33% compounded annually for the next 16 years. Such lofty expectations give CSGP little upside potential but large downside risk, which makes it a stock to avoid.

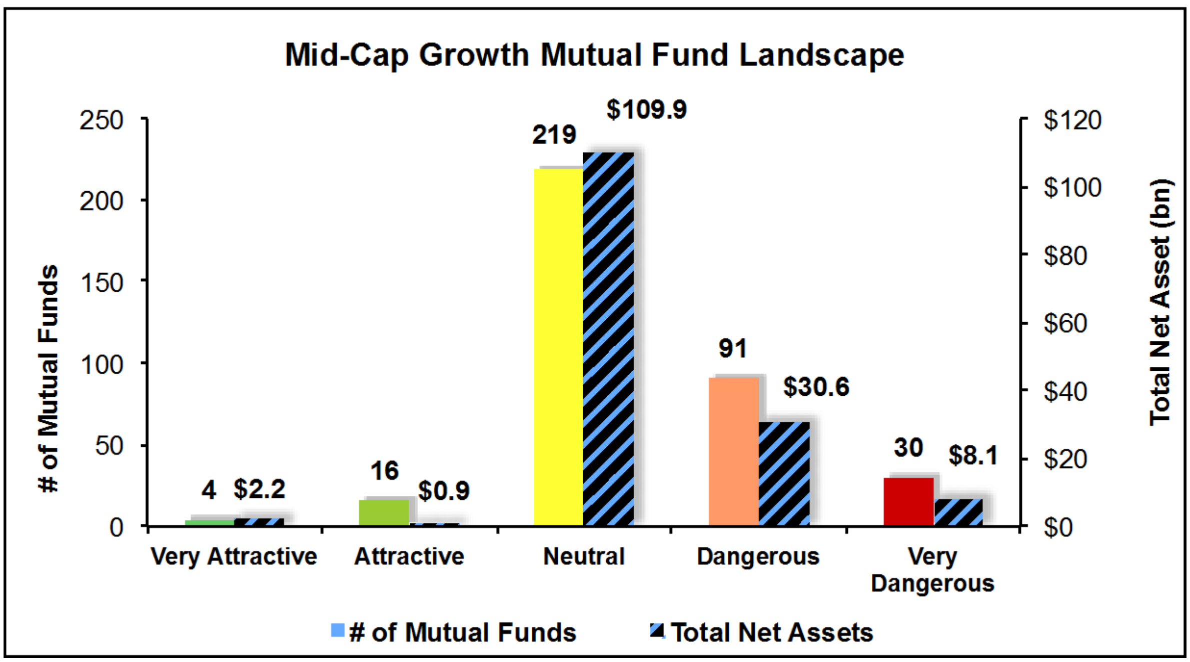
Figures 3 and 4 show the rating landscape of all Mid Cap Growth ETFs and mutual funds.

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.

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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.

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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.

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