ETF & Mutual Fund Rankings: All Cap Blend Style

The All Cap Blend style ranks third out of the twelve fund styles as detailed in our 3Q16 Style Ratings for ETFs and Mutual Funds report. Last quarter, the All Cap Blend style ranked third as well. It gets our Neutral rating, which is based on an aggregation of ratings of 74 ETFs and 698 mutual funds in the All Cap Blend style as of July 28, 2016. See a recap of our 2Q16 Style Ratings here.

Figures 1 and 2 show the five best and worst rated ETFs and mutual funds in the style. Not all All Cap Blend style ETFs and mutual funds are created the same. The number of holdings varies widely (from 4 to 3638). This variation creates drastically different investment implications and, therefore, ratings.

Investors seeking exposure to the All 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				
SPHQ	31%	52%	15%	Very Attractive
DDM	41%	37%	19%	Very Attractive
UDOW	41%	37%	19%	Very Attractive
TTFS	41%	40%	20%	Very Attractive
LRGF	20%	44%	33%	Very Attractive
Worst ETFs				
UWM	9%	29%	48%	Dangerous
URE	8%	23%	64%	Dangerous
UPW	0%	6%	92%	Dangerous
DIG	2%	3%	93%	Dangerous
LTL	17%	0%	76%	Very Dangerous

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

Sources: New Constructs, LLC and company filings

Six 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 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				
SVFYX	51%	26%	13%	Very Attractive
SVFFX	51%	26%	13%	Very Attractive
GINNX	29%	38%	13%	Very Attractive
MXXVX	38%	34%	10%	Very Attractive
QIACX	47%	27%	21%	Very Attractive
Worst Mutual Funds				
WCPSX	0%	0%	96%	Very Dangerous
NAAIX	1%	2%	4%	Very Dangerous
NAASX	1%	2%	4%	Very Dangerous
NWACX	1%	2%	4%	Very Dangerous
NWAAX	1%	2%	4%	Very Dangerous

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

Sources: New Constructs, LLC and company filings

Transamerican Partners Funds (DIGIX, DVGIX), Jensen Quality Value Fund (JNVIX, JNVSX), and O'Shaughnessy All Cap Core (OFAIX) are excluded from Figure 2 because their total net assets (TNA) are below $100 million and do not meet our liquidity minimums.

PowerShares S&P 500 Quality Portfolio (SPHQ) is the top-rated All Cap Blend ETF and Smead Value Fund (SVFYX) is the top-rated All Cap Blend mutual fund. Both earn a Very Attractive rating.

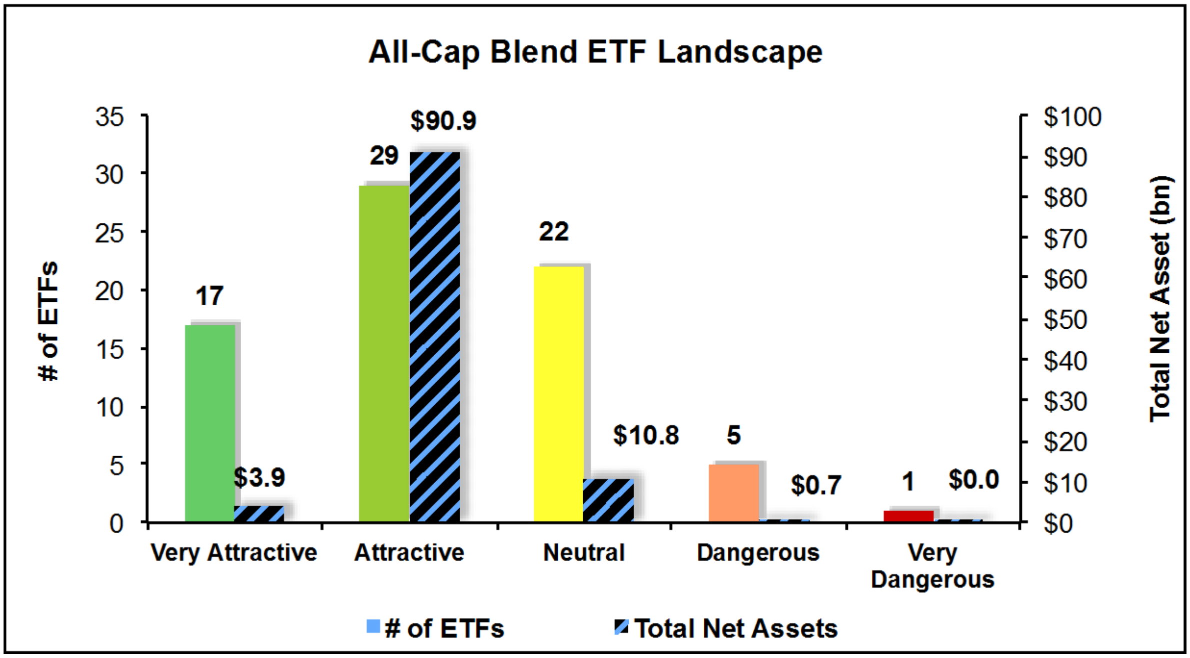
ProShares Ultra Telecommunications (LTL) is the worst rated All Cap Blend ETF and Nationwide Portfolio Completion Fund (NWAAX) is the worst rated All Cap Blend mutual fund. Both earn a Very Dangerous rating.

American Express (AXP: $64/share) is one of our favorite stocks held by SVFYX and earns an Attractive rating. We've previously featured AXP and proposed a strategy that could boost its value by $50 billion, which can be read here. Since 2009, AXP has grown after-tax profit (NOPAT) by 13% compounded annually. The company has improved its return on invested capital (ROIC) from 9% in 2009 to 13% over the last twelve months while generating cumulative $16.6 billion in free cash flow over the last five years. However, AXP remains undervalued and presents significant upside potential. At its current price of $64/share, AXP has a price-to-economic book value (PEBV) ratio of 0.9. This ratio means that the market expects AXP's NOPAT to permanently decline by 10% from current levels. If AXP can grow NOPAT by just 2% compounded annually over the next decade, the stock is worth $85/share today – a 33% upside.

Reliance Steel & Aluminum Company (RS: $76/share) is one of our least favorite stocks held by All Cap Value ETFs and mutual funds and earns a Dangerous rating. Over the past decade, Reliance's NOPAT has not meaningfully increased and over the last five years has declined by 4% compounded annually. The company's ROIC has deteriorated from a once impressive 15% in 2005 to a bottom-quintile 3% over the last twelve months. Despite the struggles noted above, RS remains overvalued. To justify its current price of $76/share, RS must grow NOPAT by 10% compounded annually for the next 13 years. This expectation seems rather optimistic given that lack of profit growth over the prior decade.

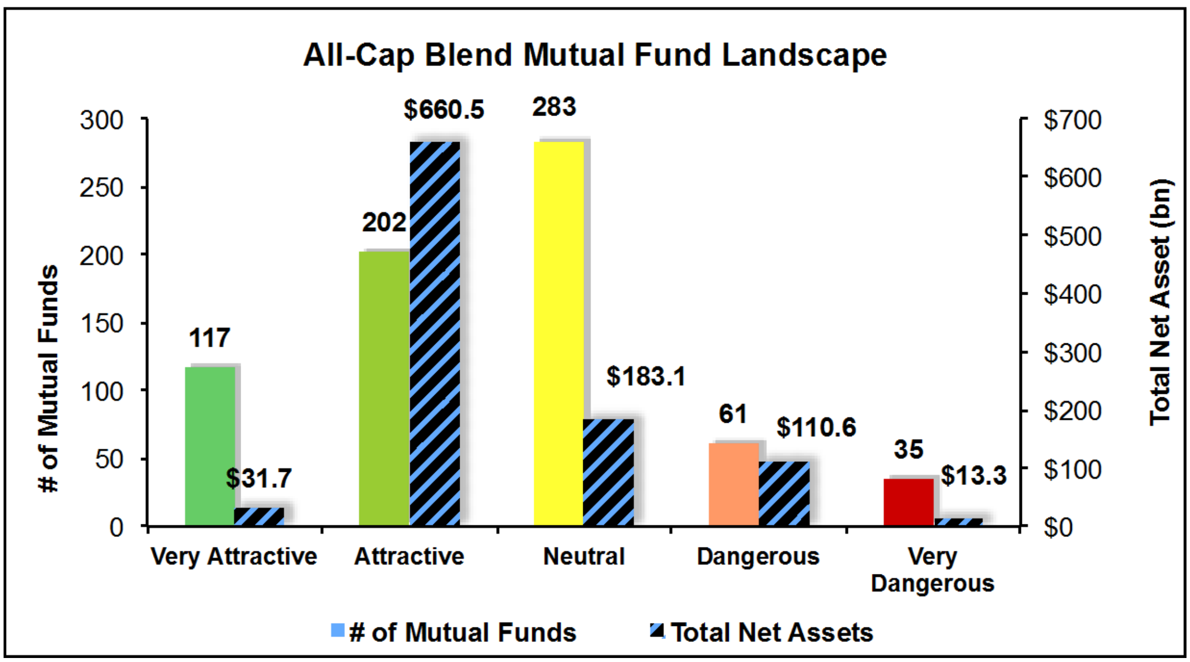
Figures 3 and 4 show the rating landscape of all All Cap Blend ETFs and mutual funds.

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

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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.

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.

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