ETF & Mutual Fund Rankings: All Cap Growth Style

The All Cap Growth style ranks sixth out of the twelve fund styles as detailed in our 3Q16 Style Ratings for ETFs and Mutual Funds report. Last quarter, the All Cap Growth style ranked eighth. It gets our Neutral rating, which is based on an aggregation of ratings of 15 ETFs and 569 mutual funds in the All Cap Growth 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 Growth style ETFs and mutual funds are created the same. The number of holdings varies widely (from 13 to 2171). This variation creates drastically different investment implications and, therefore, ratings.

Investors seeking exposure to the All 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				
IUSG	20%	44%	30%	**Attractive**
ONEQ	22%	31%	34%	**Attractive**
QQEW	21%	34%	38%	**Attractive**
PDP	13%	50%	35%	**Attractive**
FTC	13%	45%	39%	**Neutral**
Worst ETFs				
IWP	16%	45%	35%	**Neutral**
RPG	11%	41%	45%	**Neutral**
QQXT	14%	33%	44%	**Neutral**
FAD	12%	39%	42%	**Neutral**
GURU	13%	27%	47%	**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 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				
ESEIX	11%	61%	16%	Very Attractive
ESECX	11%	61%	16%	Very Attractive
FLGEX	34%	43%	18%	Very Attractive
DPUYX	16%	60%	19%	Very Attractive
DPUIX	16%	60%	19%	Very Attractive
Worst Mutual Funds				
CMXAX	9%	24%	57%	Very Dangerous
SAGAX	1%	19%	71%	Very Dangerous
JTCAX	3%	10%	13%	Very Dangerous
KAUBX	6%	16%	45%	Very Dangerous
KAUAX	6%	16%	45%	Very Dangerous

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

Sources: New Constructs, LLC and company filings

Catalyst/Lyons Hedged Premium Return Fund (CLPFX is excluded from Figure 2 because its total net assets (TNA) are below $100 million and do not meet our liquidity minimums.

iShares Core Russell US Growth ETF (IUSG) is the top-rated All Cap Growth ETF and Eaton Vance Atlanta Capital Select Equity Fund (ESEIX) is the top-rated All Cap Growth mutual fund. IUSG earns an Attractive rating and ESEIX earns a Very Attractive rating.

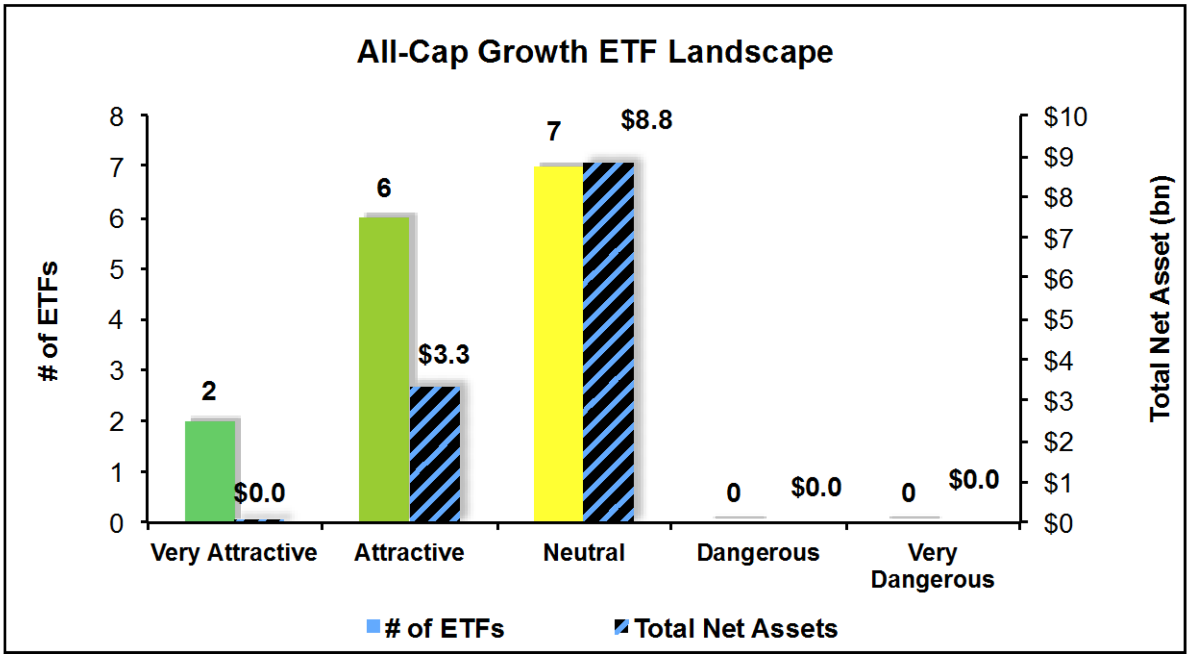
Global X Guru Index ETF (GURU) is the worst rated All Cap Growth ETF and Federated Kaufmann Fund (KAUAX) is the worst rated All Cap Growth mutual fund. GURU earns a Neutral rating and KAUAX earns a Very Dangerous rating.

Cisco Systems (CSCO: $31/share) is one of our favorite stocks held by DPUYX and earns a Very Attractive rating. Cisco is on July's Most Attractive Stocks list. Over the past decade, CSCO has grown after-tax profit (NOPAT) by 7% compounded annually to $9.1 billion in 2015. NOPAT has grown to $10.1 billion over the last twelve months (TTM). The company's return on invested capital (ROIC) has improved from 14% in 2005 to a top-quintile 17% TTM as well. Despite the improving fundamentals, CSCO remains undervalued. At its current price of $31/share, CSCO has a price-to-economic book value (PEBV) ratio of 0.9. This ratio means that the market expects Cisco's NOPAT to permanently decline by 10% from current levels. If Cisco can grow NOPAT by just 4% compounded annually over the next decade, the stock is worth $38/share today – a 23% upside.

Crown Castle International (CCI: $97/share) is one of our least favorite stocks held by GURU and earns a Very Dangerous rating. CCI's economic earnings have declined from $23 million in 2012 to -$465 million over the last twelve months. Worse yet, 2012 was the only year CCI earned positive economic earnings in any year of our model, which dates back to 1998. Over the past five years, CCI has failed to improve its ROIC and currently earns a bottom-quintile 4% over the last twelve months. Despite the clear deterioration of business fundamentals, CCI remains priced for significant profit growth. To justify its current price of $97/share, CCI must grow NOPAT by 10% compounded annually for the next 15 years. Given the shareholder value destruction through CCI's history, this expectation seems overly optimistic.

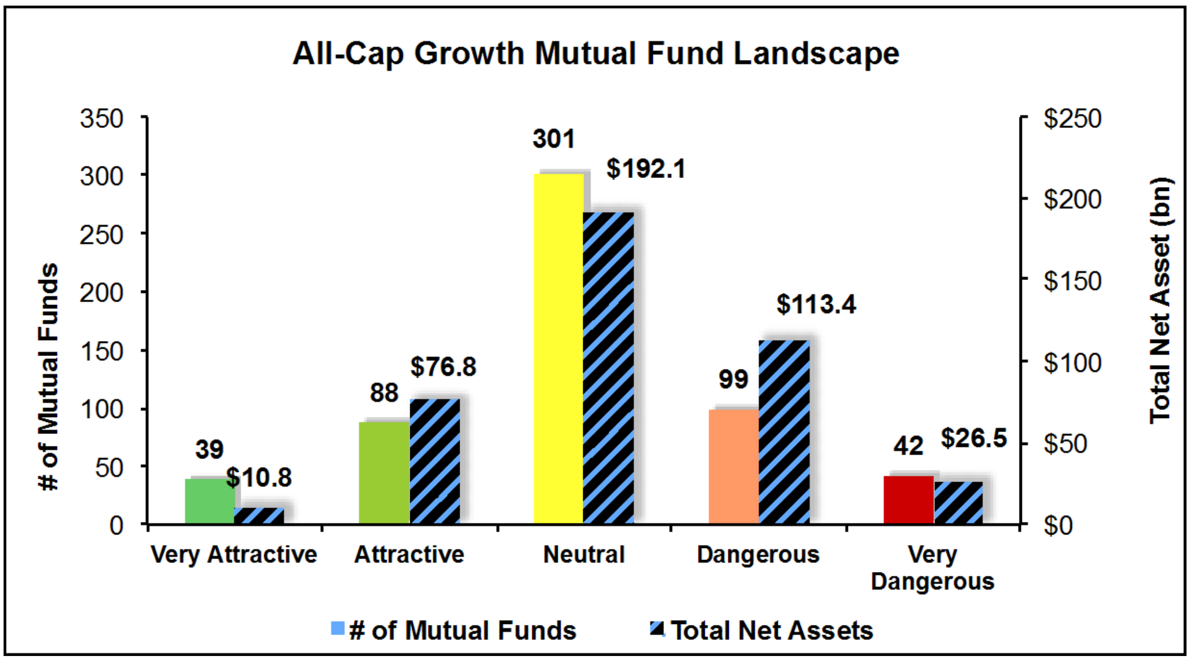
Figures 3 and 4 show the rating landscape of all All Cap Growth ETFs and mutual funds.

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

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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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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.

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