ETF & Mutual Fund Rankings: All Cap Value Style

The All Cap Value style ranks fifth out of the twelve fund styles as detailed in our 3Q16 Style Ratings for ETFs and Mutual Funds report. Last quarter, the All Cap Value style ranked fourth. It gets our Neutral rating, which is based on aggregation of ratings of ten ETFs and 295 mutual funds in the All Cap Value style as of July 28, 2016. See a recap of our 2Q16 Style Ratings here.

Figure 1 ranks from best to worst the eight all-cap value ETFs that meet our liquidity standards and Figure 2 shows the five best and worst rated all-cap value mutual funds. Not all, All Cap Value style ETFs and mutual funds are created the same. The number of holdings varies widely (from 13 to 2048). This variation creates drastically different investment implications and, therefore, ratings.

Investors seeking exposure to the All Cap Value 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)				
FTA	30%	31%	35%	Very Attractive
FNDB	24%	31%	43%	Attractive
PRF	22%	30%	44%	Attractive
Worst ETFs				
CDC	25%	25%	47%	Attractive
FVD	21%	33%	40%	Attractive
IUSV	23%	23%	46%	Neutral
RPV	25%	21%	50%	Neutral
DVP	26%	10%	64%	Neutral

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

Sources: New Constructs, LLC and company filings

WeatherStorm Forensic Accounting Long-Short ETF (FLAG) and SPDR S&P 1500 Value TILT ETF (VLU) 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

	Allocation of Mutual Fund Holdings			
Ticker	**Attractive-or-better Stocks**	**Neutral Stocks**	**Dangerous-or-worse Stocks**	**Predictive Rating**
Best Mutual Funds				
BLCRX	36%	34%	28%	Very Attractive
BVEFX	25%	36%	35%	Very Attractive
BVEIX	25%	36%	35%	Very Attractive
BPAIX	32%	30%	28%	Very Attractive
DIVIX	38%	28%	33%	Very Attractive
Worst Mutual Funds				
TVVAX	16%	44%	33%	Very Dangerous
ACLAX	7%	33%	48%	Very Dangerous
MLUAX	8%	29%	56%	Very Dangerous
CFJIX	25%	33%	38%	Very Dangerous
ABMAX	13%	32%	43%	Very Dangerous

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

Sources: New Constructs, LLC and company filings

First Trust Large Cap AlphaDEX Fund (FTA) is the top-rated All Cap Value ETF and BMO Large-Cap Value Fund (BLCRX) is the top-rated All Cap Value mutual fund. Both earn a Very Attractive rating.

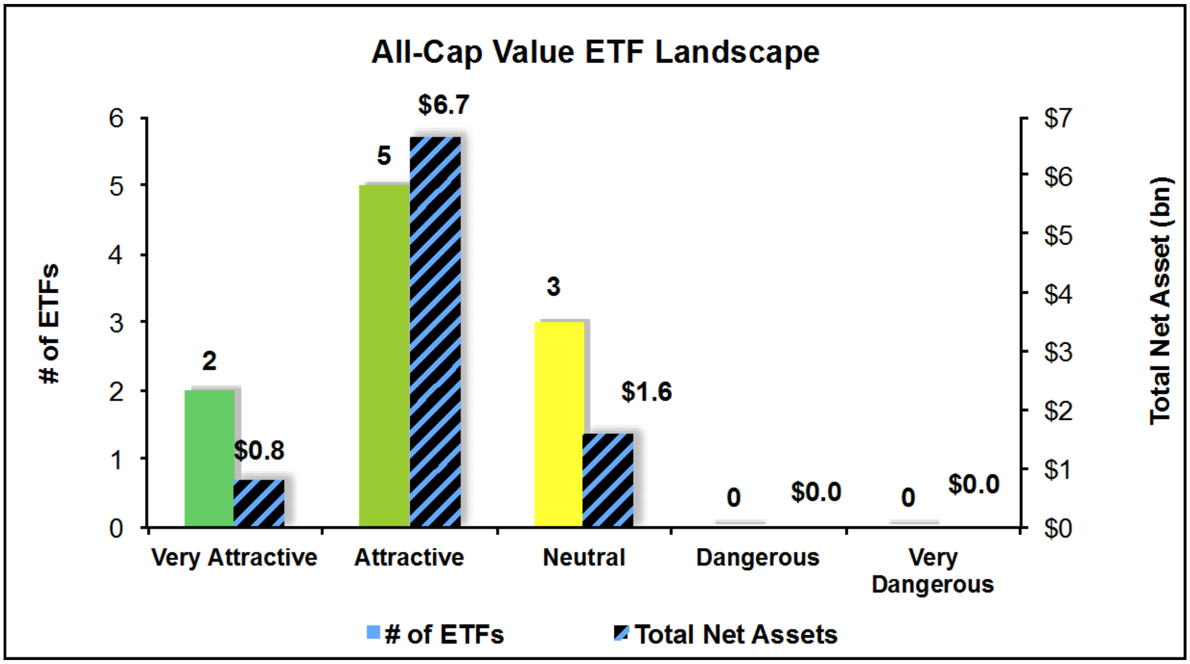
Deep Value ETF (DVP) is the worst rated All Cap Value ETF and American Beacon Mid-Cap Value Fund (ABMAX) is the worst rated All Cap Value mutual fund. DVP earns a Neutral rating and ABMAX earns a Very Dangerous rating.

The Travelers Companies, Inc. (TRV: $117/share) is one of our favorite stocks held by DIVIX and earns an Attractive rating. TRV was featured as a Long Idea in November 2014 and remains undervalued. Over the past decade, Travelers has grown after-tax profit (NOPAT) by 5% compounded annually. Over the same time, the company has improved its return on invested capital (ROIC) from 8% in 2005 to 11% during the last twelve months (TTM). Despite the improvement and strength of business fundamentals, TRV is undervalued. At its current price of $117/share, TRV has a price-to-economic book value (PEBV) ratio of 0.7. This ratio means the market expects TRV's NOPAT to permanently decline by 30%. If TRV can grow NOPAT by just 4% compounded annually for the next decade the stock is worth $221/share today- an 88% upside.

Level 3 Communications, Inc. (LVLT: $53/share) is one of our least favorite stocks held by MLUAX and earns a Very Dangerous rating. Level 3 has never generated positive economic earnings in any year of our model, which dates back to 1998. Over the past five years alone, the company has burned through cumulative -$8.4 billion in free cash flow and currently earns a 6% ROIC. Despite its inability to create shareholder value, LVLT is priced for significant profit growth moving forward. To justify its current price of $53/share, LVLT must grow NOPAT by 10% compounded annually for the next 11 years. This expectation seems too optimistic given the company's history of shareholder value destruction.

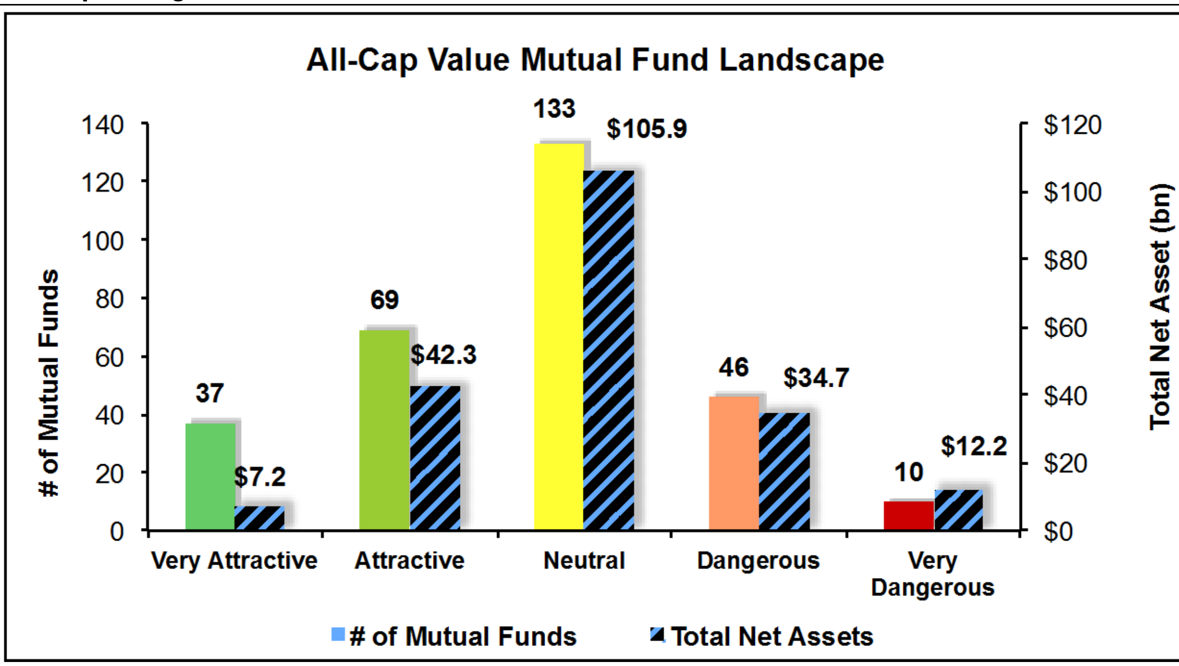
Figures 3 and 4 show the rating landscape of all, All Cap Value ETFs and mutual funds.

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 Martone 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.

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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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