ETF & Mutual Fund Rankings: Large Cap Blend Style

The Large Cap Blend style ranks first out of the twelve fund styles as detailed in our 3Q16 Style Ratings for ETFs and Mutual Funds report. Last quarter, the Large Cap Blend style ranked second. It gets our Attractive rating, which is based on an aggregation of ratings of 35 ETFs and 859 mutual funds in the Large 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 Large Cap Blend style ETFs and mutual funds are created the same. The number of holdings varies widely (from 16 to 3789). This variation creates drastically different investment implications and, therefore, ratings.

Investors seeking exposure to the Large 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				
DIA	37%	40%	20%	Very Attractive
EPS	31%	38%	27%	Very Attractive
RWL	27%	34%	35%	Very Attractive
MOAT	14%	45%	41%	Very Attractive
FTCS	22%	54%	25%	Very Attractive
Worst ETFs				
PTLC	21%	34%	39%	Attractive
USMV	14%	44%	41%	Attractive
EQWL	20%	37%	39%	Attractive
IBLN	13%	42%	35%	Neutral
EQAL	13%	31%	48%	Neutral

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

Sources: New Constructs, LLC and company filings

SPDR MSCI USA Strategic Factors ETF (QUS), and SPDR MFS Systematic Core Equity ETF (SYE) 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				
NCARX	46%	36%	18%	Very Attractive
NCAFX	46%	36%	18%	Very Attractive
NCAEX	46%	36%	18%	Very Attractive
CBBZX	44%	25%	19%	Very Attractive
YACKX	37%	26%	11%	Very Attractive
Worst Mutual Funds				
PWBAX	17%	31%	49%	Very Dangerous
IFCSX	1%	38%	35%	Very Dangerous
WBDIX	13%	22%	6%	Very Dangerous
WBDNX	13%	22%	6%	Very Dangerous
VAPAX	13%	40%	42%	Very Dangerous

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

Sources: New Constructs, LLC and company filings

State Street SPDR Dow Jones Industrial Average ETF (DIA) is the top-rated Large Cap Blend ETF and Nuveen Concentrated Core Fund (NCARX) is the top-rated Large Cap Blend mutual fund. Both earn a Very Attractive rating.

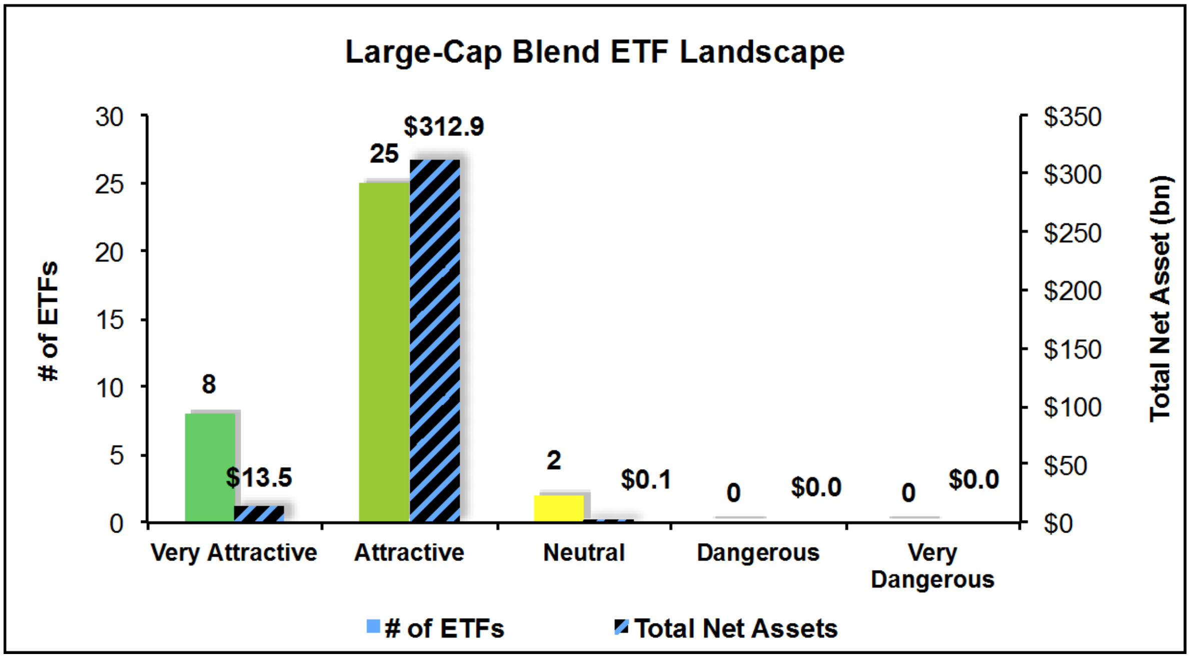
PowerShares Russell 1000 Equal Weight Portfolio (EQAL) is the worst rated Large Cap Blend ETF and Virtus Equity Trend Fund (VAPAX) is the worst rated Large Cap Blend mutual fund. EQAL earns a Neutral rating and VAPAX earns a Very Dangerous rating.

Wells Fargo & Company (WFC: $48/share) is one of our favorite stocks held by CBBZX and earns an Attractive rating. WFC was a featured Long Idea in October 2015. Over the past decade, Wells Fargo's after-tax profit (NOPAT) has grown by 11% compounded annually. The company has improved its return on invested capital (ROIC) from 8% in 2010 to 10% over the last twelve months and has generated an astounding cumulative $38 billion in free cash flow over the last five years. Despite the fundamental strength, the market currently undervalues WFC. At its current price of $48/share, WFC has a price-to-economic book value (PEBV) ratio of 1.0. This ratio means that the market expects WFC's NOPAT to never meaningfully grow from current levels. If WFC can grow NOPAT by just 4% compounded annually for the next decade, the stock is worth $63/share today – a 31% upside.

Brady Corporation (BRC: $33/share) is one of our least favorite stocks held by WBDNX and earns a Very Dangerous rating. BRC is on July's Most Dangerous Stocks list. Over the past decade, BRC's NOPAT has declined by 2% compounded annually. The company's ROIC has fallen from a once impressive 13% in 2005 to 5% over the last twelve months. Despite the deterioration in fundamentals, BRC is up over 40% YTD, which makes shares significantly overvalued. To justify its current price of $33/share, BRC must grow NOPAT by 13% compounded annually for the next 13 years. This expectation seems rather optimistic given the past decade of profit decline.

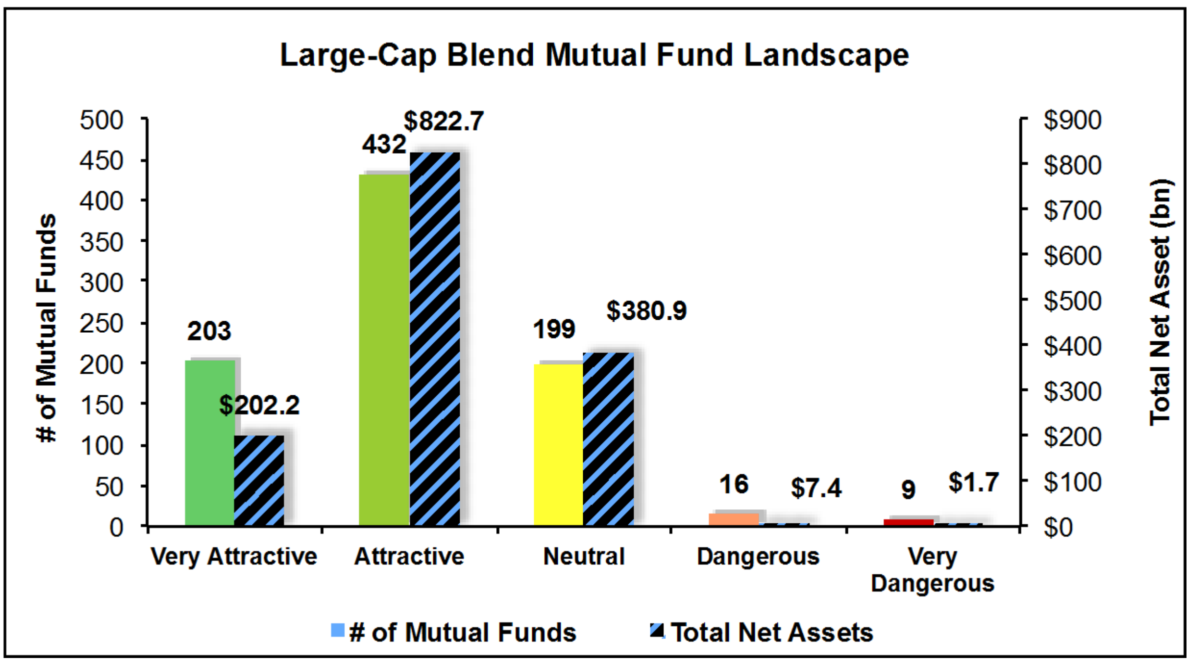
Figures 3 and 4 show the rating landscape of all Large Cap Blend ETFs and mutual funds.

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.

New Constructs® – Profile

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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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