



ETF & Mutual Fund Rankings: Small Cap Value Style

The Small Cap Value style ranks last out of the twelve fund styles as detailed in our [3Q16 Style Ratings for ETFs and Mutual Funds](#) report. [Last quarter](#), the Small Cap Value style ranked last as well. It gets our Dangerous rating, which is based on an aggregation of ratings of 17 ETFs and 252 mutual funds in the Small Cap Value style as of August 4, 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 Small Cap Value style ETFs and mutual funds are created the same. The number of holdings varies widely (from 13 to 1364). This variation creates drastically different investment implications and, therefore, ratings.

Investors seeking exposure to the Small 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

Ticker	Allocation of ETF Holdings			Predictive Rating
	Attractive-or-better Stocks	Neutral Stocks	Dangerous-or-worse Stocks	
Best ETFs				
XSLV	11%	44%	44%	Attractive
DES	12%	24%	48%	Neutral
VBR	14%	32%	43%	Neutral
SLYV	10%	31%	51%	Neutral
VIOV	11%	31%	52%	Neutral
Worst ETFs				
JKL	13%	23%	52%	Neutral
IVOV	14%	32%	49%	Dangerous
IJJ	13%	32%	51%	Dangerous
RZV	8%	26%	58%	Dangerous
RFV	11%	27%	56%	Dangerous

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

Sources: New Constructs, LLC and company filings

First Trust Mid Cap Value AlphaDEX Fund (FNK) is excluded from Figure 1 because its 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	Allocation of Mutual Fund Holdings			Predictive Rating
	Attractive-or-better Stocks	Neutral Stocks	Dangerous-or-worse Stocks	
Best Mutual Funds				
RVFIX	27%	50%	6%	Very Attractive
RVVHX	27%	50%	6%	Very Attractive
RSEIX	20%	45%	20%	Very Attractive
RYSEX	20%	45%	20%	Very Attractive
RYVFX	27%	50%	6%	Attractive
Worst Mutual Funds				
TVOAX	2%	34%	54%	Very Dangerous
SNWAX	10%	31%	52%	Very Dangerous
PSLMX	13%	26%	34%	Very Dangerous
PSLAX	13%	26%	34%	Very Dangerous
DASVX	18%	39%	37%	Very Dangerous

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

Sources: New Constructs, LLC and company filings

PowerShares S&P SmallCap Low Volatility Portfolio (XSLV) is the top-rated Small Cap Value ETF and Royce Small-Cap Value Fund (RVFIX) is the top-rated Small Cap Value mutual fund. XSLV earns an Attractive rating and RVFIX earns a Very Attractive rating.

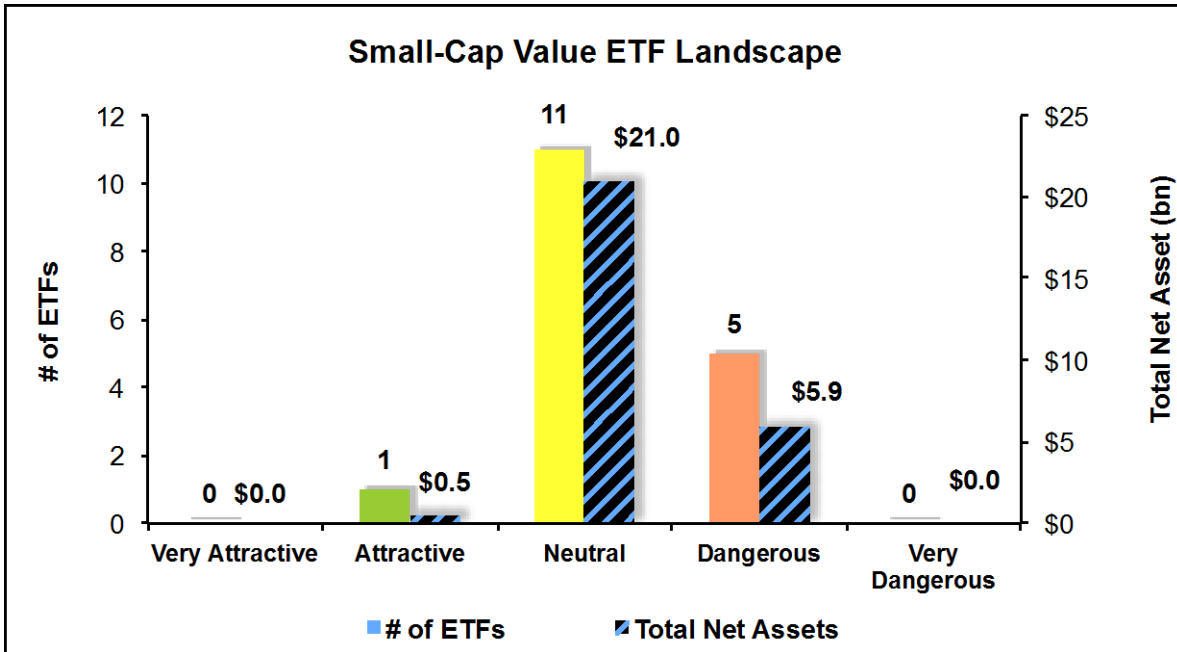
Guggenheim S&P MidCap 400 Pure Value ETF (RFV) is the worst rated Small Cap Value ETF and Dunham Small Cap Value Fund (DASVX) is the worst rated Small Cap Value mutual fund. RFV earns a Dangerous rating and DASVX earns a Very Dangerous rating.

The Buckle Inc. (BKE: \$26/share) is one of our favorite stocks held by RVFIX and earns a Very Attractive rating. Since 1998, Buckle has grown after-tax profit ([NOPAT](#)) by 11% compounded annually. BKE has improved its return on invested capital ([ROIC](#)) from an already impressive 16% in 1998 to a top-quintile 25% during the past twelve months. Despite the impressive fundamental improvements, BKE remains undervalued. At its current price of \$26/share, Buckle has a price-to-economic book value ([PEBV](#)) ratio of 0.6. This ratio means that the market expects Buckle's NOPAT to permanently decrease by 40%. If Buckle can [grow NOPAT by just 1% compounded annually for the next 5 years](#), the stock is worth \$54/share today – a 108% upside.

Flagstar Bancorp Inc. (FBC: \$26/share) is one of our least favorite stocks held by PSLAX and earns a Very Dangerous rating. Flagstar Bancorp was featured in the [Danger Zone in May 2014](#) and operations have not improved since. Over the past decade, Flagstar's NOPAT has declined by 6% compounded annually. FBC's ROIC has declined from 10% in 2005 to a bottom-quintile 1% over the last twelve months. Despite the deteriorating fundamentals, FBC remains overvalued. To justify its current price of \$26/share FBC must [grow NOPAT by 10% compounded annually over the next 15 years](#). These expectations seem overly optimistic given Flagstar's decade of declining profit.

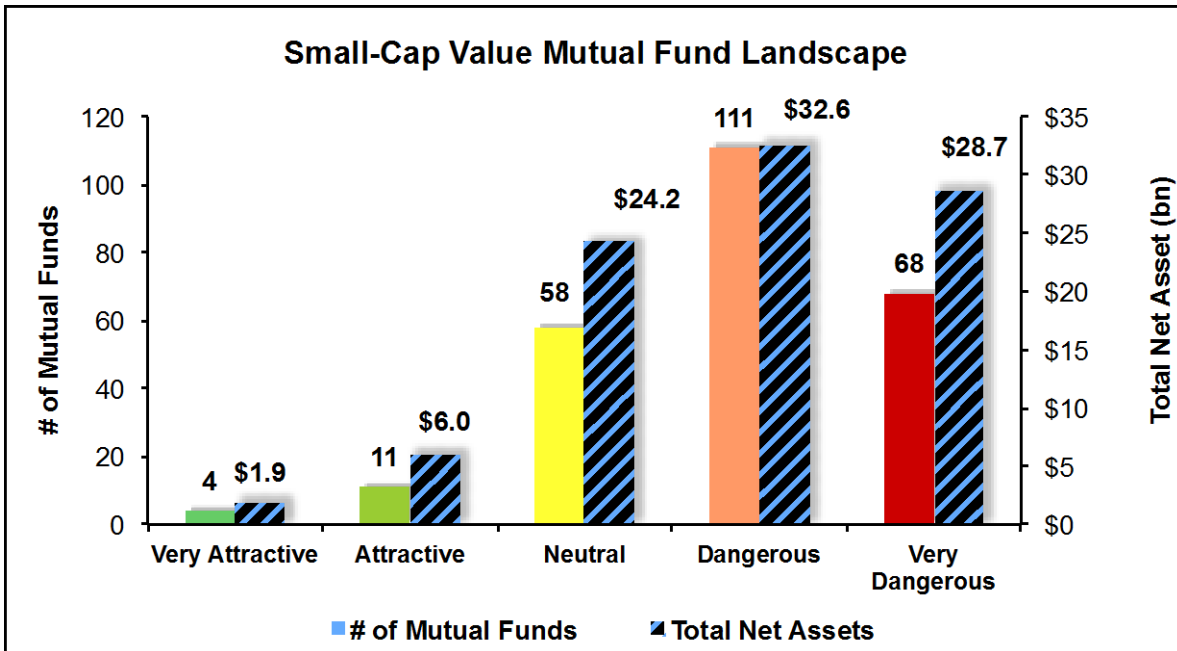
Figures 3 and 4 show the rating landscape of all Small Cap Value ETFs and mutual funds.

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.

New Constructs® – Profile

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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.

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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.

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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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