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 4Q16 Style Ratings for ETFs and Mutual Funds report. Last quarter, the All Cap Growth style ranked sixth as well. It gets our Neutral rating, which is based on an aggregation of ratings of 14 ETFs and 531 mutual funds in the All Cap Growth style as of October 25, 2016. See a recap of our 3Q16 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 17 to 2150). 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	16%	49%	26%	Very Attractive
ONEQ	15%	38%	30%	Attractive
RPG	12%	39%	46%	Attractive
QQEW	16%	40%	40%	Attractive
FTC	15%	46%	38%	Attractive
Worst ETFs				
IWP	19%	38%	38%	Neutral
FAD	13%	39%	40%	Neutral
QQXT	14%	37%	46%	Neutral
GURU	8%	26%	51%	Neutral
FPX	1%	34%	45%	Dangerous

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

Sources: New Constructs, LLC and company filings

Arrow QCM Equity Factor ETF (QVM), WBI Tactical LCG Shares (WBIE), and Direxion NASDAQ-100 Equal Weighted Index Shares (QQQE) 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				
DUSLX	33%	50%	11%	Very Attractive
FLGEX	29%	44%	14%	Very Attractive
DPUYX	19%	57%	17%	Very Attractive
DPUIX	19%	57%	17%	Very Attractive
NICSX	21%	32%	28%	Very Attractive
Worst Mutual Funds				
ICNAX	11%	33%	44%	Very Dangerous
JTCAX	5%	21%	45%	Very Dangerous
KAUBX	5%	18%	44%	Very Dangerous
KAUAX	5%	18%	44%	Very Dangerous
SAGAX	0%	23%	66%	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), AMG Managers Herndon Large Cap Value Fund (AHRNX, AALIX) are excluded from Figure 2 because their total net assets (TNA) are below $100 million and do not meet our liquidity minimums.

iShares Core Russell US Growth (IUSG) is the top-rated All Cap Growth ETF and DFA US Large Cap Growth (DUSLX) is the top-rated All Cap Growth mutual fund. Both earn a Very Attractive rating.

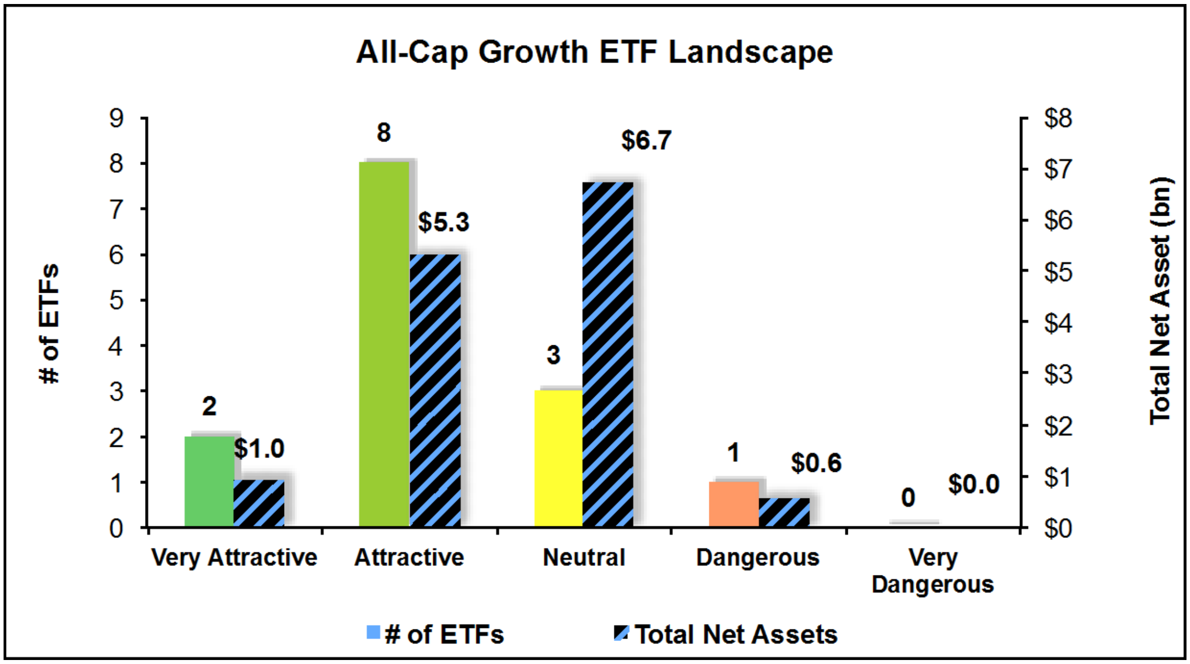
First Trust US IPO Index (FPX) is the worst rated All Cap Growth ETF and RidgeWorth Innovative Growth Stock Fund (SAGAX) is the worst rated All Cap Growth mutual fund. FPX earns a Dangerous rating and SAGAX earns a Very Dangerous rating.

Johnson & Johnson (JNJ: $113:/share) is one of our favorite stocks held by DUSLX and earns an Attractive rating. JNJ was also featured as a Long Idea in April 2014. Over the past decade, JNJ has grown after-tax profit (NOPAT) by 5% compounded annually to $15.2 billion in 2015 and to $15.7 billion over the last twelve months (TTM). Since 1998 (or as far back as our model goes), the company consistently achieves a double-digit return on invested capital (ROIC) and currently earns a 14% TTM ROIC. Despite the solid fundamentals, JNJ remains undervalued. At its current price of $114/share, JNJ has a price-to-economic book value (PEBV) ratio of 1.2. This ratio means the market expects JNJ's NOPAT to increase by only 20% over the remainder of its corporate life. If JNJ can grow NOPAT by just 5% compounded annually over the next decade, the stock is worth $129/share today – a 15% upside.

Martin Marietta Materials Inc. (MLM: $180/share) is one of our least favorite stocks held by ICNAX and earns a Very Dangerous rating. MLM's economic earnings, the true cash flows of the business, have declined from -$4 million in 2005 to -$133 million TTM. MLM's ROIC has declined from 11% in 2006 to 6% TTM. Despite the clear destruction of shareholder value, MLM remains price for significant profit growth. To justify its current price of $180/share, MLM must grow NOPAT by 12% compounded annually for the next 12 years. This expectation seems overly optimistic given MLM's inability to generate any true profits over the past decade.

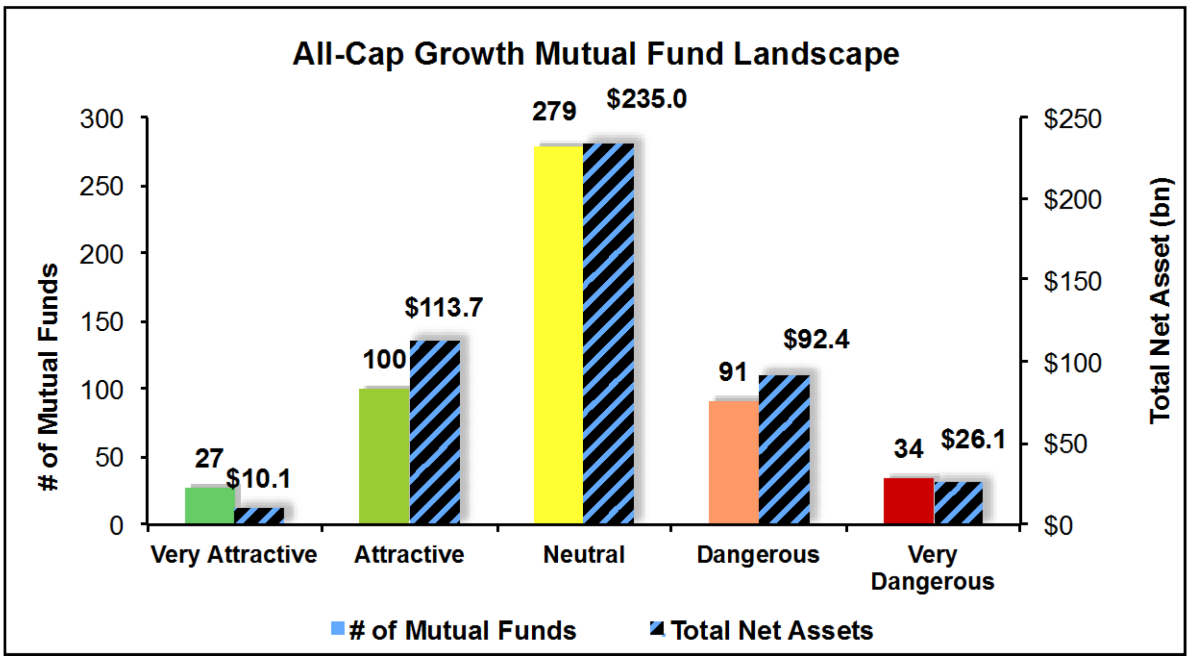
Figures 3 and 4 show the rating landscape of all, All Cap Growth ETFs and mutual funds.

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, Kyle Guske and Kyle Martone receive no compensation to write about any specific stock, style, or theme.

New Constructs® – Profile

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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