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 4Q16 Style Ratings for ETFs and Mutual Funds report. Last quarter, the All Cap Value style ranked fifth as well. It gets our Neutral rating, which is based on an aggregation of ratings of 10 ETFs and 330 mutual funds in the All Cap Value style as of October 25, 2016. See a recap of our 3Q16 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 20 to 2036). 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	29%	35%	32%	**Attractive**
FVD	23%	36%	35%	**Attractive**
FNDB	22%	36%	39%	**Attractive**
Worst ETFs				
CDC	21%	33%	44%	**Attractive**
PRF	21%	33%	42%	**Attractive**
IUSV	22%	25%	44%	**Neutral**
RPV	24%	23%	49%	**Neutral**
DVP	26%	18%	56%	**Neutral**

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

Sources: New Constructs, LLC and company filings

WeatherStorm Forensic Account ETF (FLAG) and State Street SPDR S&P 1500 Value 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				
FVDKX	37%	27%	18%	Very Attractive
DIVIX	36%	30%	32%	Very Attractive
FVDFX	37%	27%	18%	Very Attractive
FAIVX	38%	28%	18%	Very Attractive
DVEIX	36%	30%	32%	Very Attractive
Worst Mutual Funds				
HVOBX	11%	25%	48%	Very Dangerous
HVOAX	11%	25%	48%	Very Dangerous
MLUAX	10%	26%	55%	Very Dangerous
CFJIX	22%	39%	37%	Very Dangerous
ABMAX	13%	37%	35%	Very Dangerous

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

Sources: New Constructs, LLC and company filings

Unified Symons Value Fund (SAVIX) is excluded from Figure 2 because its total net assets (TNA) are below $100 million and do not meet our liquidity minimums.

First Trust Large Cap Value Fund (FTA) is the top-rated All Cap Value ETF and Fidelity Value Discovery Fund (FVDKX) is the top-rated All Cap Value mutual fund. FTA earns an Attractive rating and FVDKX earns a Very Attractive rating.

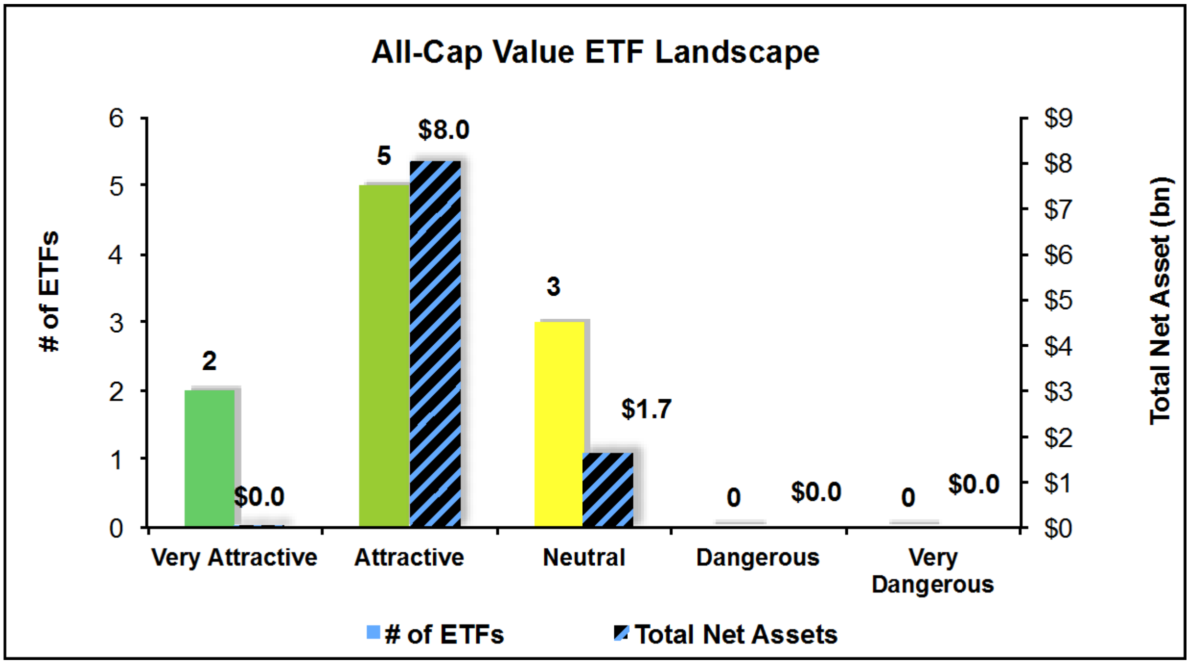
ETF Series Solutions Deep Value ETF (DVP) is the worst rated All Cap Value ETF and American Beacon Mid-Cap Value Fund (ABMAX) is the worst rated All Cap Value mutual fund. DVP earns a Neutral rating and ABMAX earns a Very Dangerous rating.

JPMorgan Chase & Company (JPM: $69/share) is one of our favorite stocks held by FVDKX and earns an Attractive rating. Over the past decade, JPM has grown after-tax profit (NOPAT) by 10% compounded annually. The company has improved its return on invested capital (ROIC) from 4% in 2005 to 9% over the last twelve months (TTM). Despite the improvement in fundamentals, JPM remains undervalued. At its current price of $69/share, JPM has a price-to-economic book value (PEBV) ratio of 1.0. This ratio means the market expects JPM's NOPAT to never grow over the remaining life of the firm. If JPM can grow NOPAT by just 4% compounded annually over the next decade, the stock is worth $82/share today – a 19% upside.

Farmer Brothers Company (FARM: $32/share) is one of our least favorite stocks held by All Cap Value funds and earns a Very Dangerous rating. FARM is on October's Most Dangerous Stocks list. Over the past decade FARM's economic earnings, the true cash flows of the business, have declined from -$12 million in 2006 to -$21 million TTM. The company currently earns a bottom-quintile ROIC of 1% and has burned through cumulative $36 million in free cash flow over the past five years. Despite the inability to create true shareholder value, FARM remains overvalued. To justify its current price of $32/share, FARM must grow NOPAT by 33% compounded annually for the next 12 years. This expectation seems rather optimistic for even the most profitable firms in the world, much less one that has failed to create shareholder value for the past 10 years.

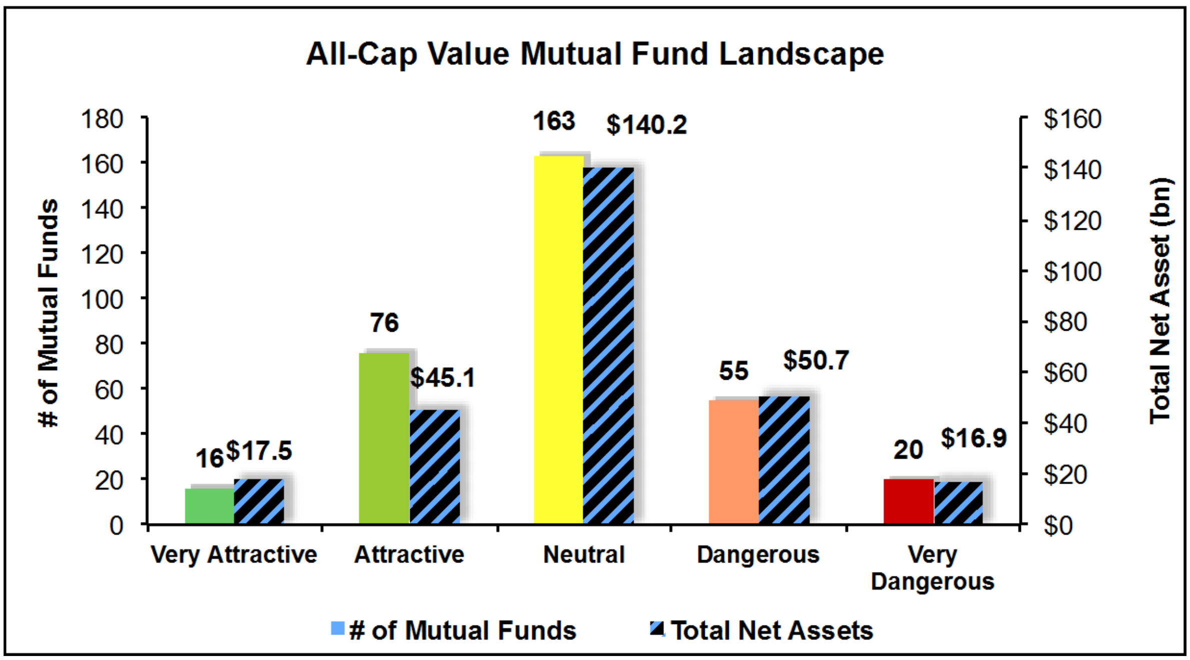
Figures 3 and 4 show the rating landscape of all, All Cap Value ETFs and mutual funds.

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

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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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