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 4Q16 Style Ratings for ETFs and Mutual Funds report. Last quarter, the Large Cap Blend style ranked first as well. It gets our Attractive rating, which is based on an aggregation of ratings of 33 ETFs and 857 mutual funds in the Large Cap Blend 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 Large Cap Blend style ETFs and mutual funds are created the same. The number of holdings varies widely (from 20 to 1,385). 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	34%	45%	20%	Very Attractive
EPS	29%	42%	24%	Very Attractive
FTCS	30%	62%	8%	Very Attractive
GSLC	25%	43%	29%	Very Attractive
OEF	23%	44%	27%	Very Attractive
Worst ETFs				
USMV	17%	53%	28%	Attractive
EQWL	19%	42%	35%	Attractive
DSI	19%	47%	29%	Attractive
FMK	25%	33%	37%	Attractive
EQAL	16%	31%	46%	Neutral

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

Sources: New Constructs, LLC and company filings

State Street SPDR MSCI USA StrategicFactors ETF (QUS) 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

	Allocation of Mutual Fund Holdings			
Ticker	Attractive-or-better Stocks	Neutral Stocks	Dangerous-or-worse Stocks	Predictive Rating
Best Mutual Funds				
CBBZX	34%	34%	20%	Very Attractive
YACKX	21%	46%	6%	Very Attractive
CBBIX	34%	34%	20%	Very Attractive
CBBYX	34%	34%	20%	Very Attractive
JHUPX	44%	36%	17%	Very Attractive
Worst Mutual Funds				
PWBAX	18%	36%	42%	Very Dangerous
BLPSX	11%	19%	15%	Very Dangerous
WBDNX	20%	5%	21%	Very Dangerous
TRFAX	22%	35%	39%	Very Dangerous
VAPAX	13%	45%	39%	Very Dangerous

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

Sources: New Constructs, LLC and company filings

Nuveen Concentrated Core Fund (NCARX, NCAFX, NCAEX) is excluded from Figure 2 because its total net assets (TNA) are below $100 million and do not meet our liquidity minimums.

State Street DOW Jones Industrial Average ETF (DIA) is the top-rated Large Cap Blend ETF and AB Growth & Income Fund (CBBZX) is the top-rated Large Cap Blend mutual fund. Both earn a Very Attractive rating.

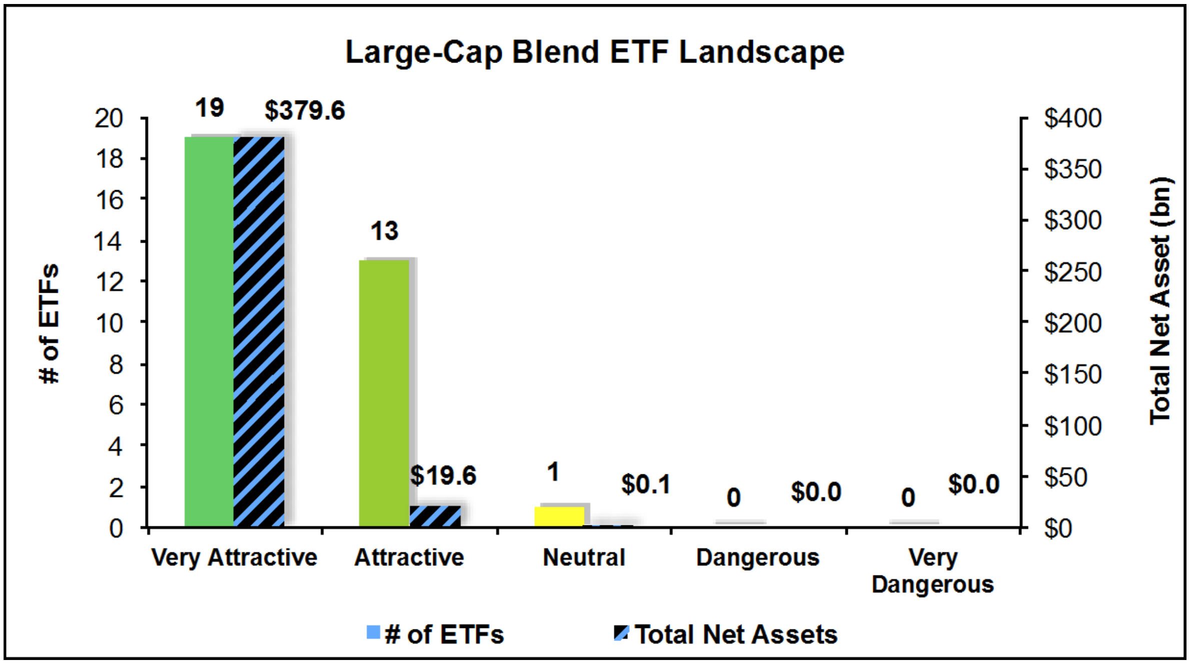
PowerShares Russell 1000 Equal Weight Portfolio (EQAL) is the worst rated Large Cap Blend ETF and Vitus Equity Trend Fund (VAPAX) is the worst rated Large Cap Blend mutual fund. EQAL earns a Neutral rating and VAPAX earns a Very Dangerous rating.

Wal-Mart Stores (WMT: $69/share) is one of our favorite stocks held by EPS and earns an Attractive rating. WMT was a featured Long Idea in April 2015 as well. WMT's has grown after-tax profit (NOPAT) by 3% compounded annually over the past decade. Despite fluctuations, WMT consistently earns a double digit return on invested capital (ROIC) and currently earns a 10% ROIC over the last twelve months (TTM). Despite the strong underlying fundamentals, the market has continued to undervalue WMT, as it has since 2011. At its current price of $69/share, WMT has a price-to-economic book value (PEBV) ratio of 0.8. This ratio means the market expects WMT's NOPAT to permanently decline by 20%. If Wal-Mart can continue to grow NOPAT by just 3% compounded annually for the next decade, the stock is worth $112/share today – a 62% upside.

Nucor Corporation (NUE: $48/share) is one of our least favorite stocks held by VAPAX and earns a Dangerous rating. Over the past decade, Nucor's NOPAT has declined by 13% compounded annually. The company's ROIC has fallen from 25% in 2005 to 5% TTM. Despite the deterioration in fundamentals, NUE is up over 17% year-to-date, and shares are significantly overvalued. To justify its current price of $48/share, NUE must grow NOPAT by 16% compounded annually over the next 11 years. This expectation seems rather optimistic given NUE's inability to grow NOPAT over the past decade.

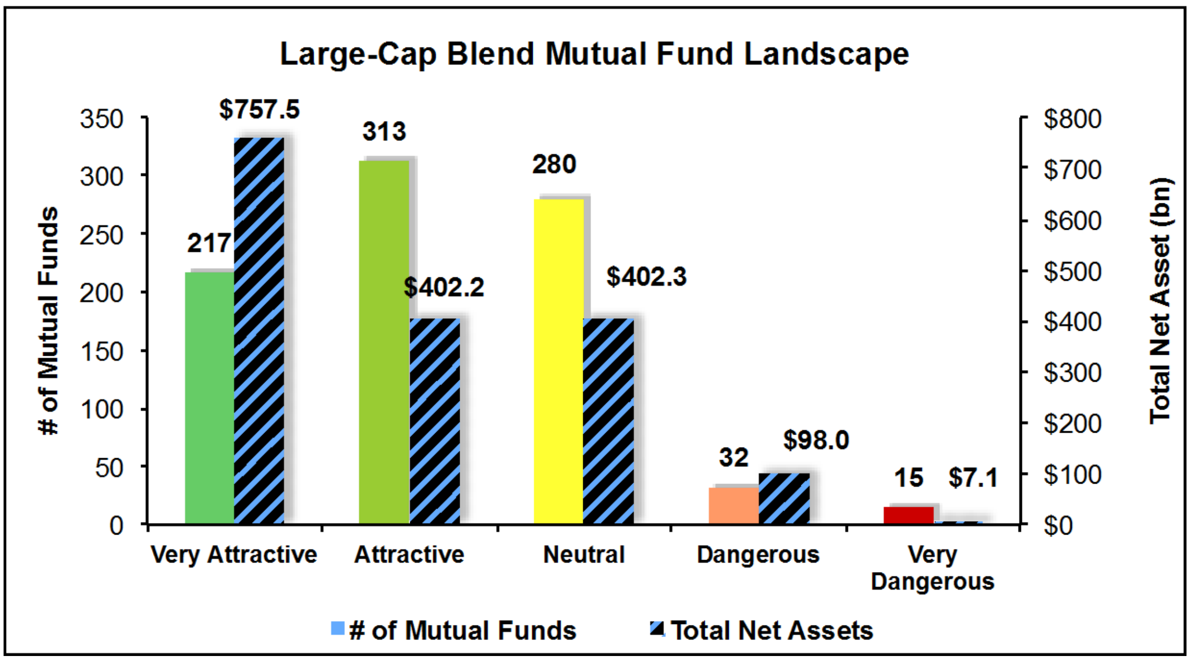
Figures 3 and 4 show the rating landscape of all Large Cap Blend ETFs and mutual funds.

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: Kyle Martone owns Wal-Mart Stores (WMT). David Trainer, Kyle Guske and Kyle Martone receive no compensation to write about any specific stock, style, or theme.

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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.

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.

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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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