ETF & Mutual Fund Rankings: Large Cap Growth Style

The Large Cap Growth style ranks fourth out of the twelve fund styles as detailed in our 4Q16 Style Ratings for ETFs and Mutual Funds report. Last quarter, the Large Cap Growth style ranked fourth as well. It gets our Neutral rating, which is based on an aggregation of ratings of 16 ETFs and 653 mutual funds in the Large Cap Growth style as of November 4, 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 Growth style ETFs and mutual funds are created the same. The number of holdings varies widely (from 20 to 1029). This variation creates drastically different investment implications and, therefore, ratings.

Investors seeking exposure to the Large 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

Ticker	Attractive-or-better Stocks	Neutral Stocks	Dangerous-or-worse Stocks	Predictive Rating
Best ETFs				
QUAL	22%	57%	16%	Very Attractive
SCHG	17%	44%	31%	Very Attractive
VUG	17%	48%	29%	Very Attractive
MGK	17%	52%	24%	Very Attractive
VONG	17%	56%	25%	Very Attractive
Worst ETFs				
QQQ	16%	52%	27%	Attractive
PWB	6%	64%	30%	Attractive
JKE	12%	51%	32%	Attractive
PXLG	8%	57%	33%	Attractive
MTUM	20%	41%	36%	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 World Strategic Factors ETF (QWLD) 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: Attractive-or-better Stocks	Neutral Stocks	Dangerous-or-worse Stocks	Predictive Rating
Best Mutual Funds				
CNRUX	16%	52%	28%	Very Attractive
DPRIX	24%	36%	10%	Very Attractive
CNRVX	16%	52%	28%	Very Attractive
BRGIX	27%	39%	17%	Very Attractive
MCGIX	11%	50%	30%	Attractive
Worst Mutual Funds				
TSNAX	2%	44%	50%	Very Dangerous
ELGAX	3%	37%	57%	Very Dangerous
PLAAX	8%	20%	16%	Very Dangerous
QUAGX	11%	43%	35%	Very Dangerous
QTRAX	10%	40%	34%	Very Dangerous

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

Sources: New Constructs, LLC and company filings

Nuveen Growth Fund's (NSRGX, NBGRX, NSRCX, NSAGX), and Frontier MFG Global Plus Fund (FMGPX, FMPSX) are excluded from Figure 2 because their total net assets (TNA) are below $100 million and do not meet our liquidity minimums.

iShares Edge MSCI USA Quality Factor (QUAL) is the top-rated Large Cap Growth ETF and City National Rochdale US Core Equity Fund (CNRUX) is the top-rated Large Cap Growth mutual fund. Both earn a Very Attractive rating.

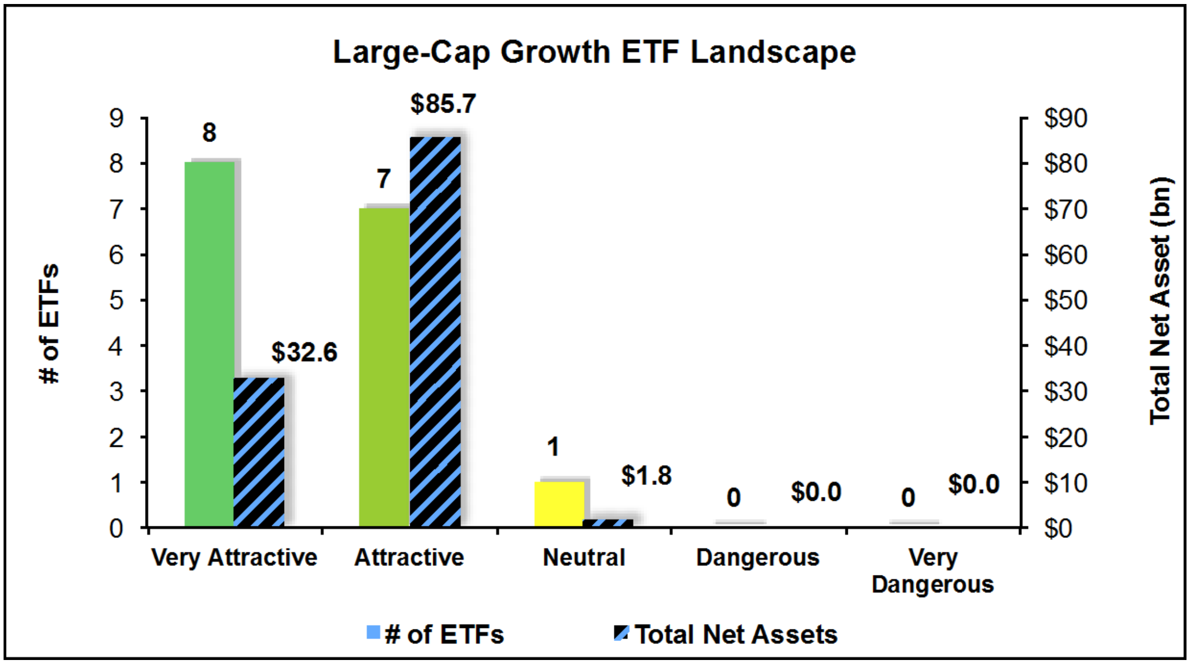
iShares Edge MSCI USA Momentum Factor (MTUM) is the worst rated Large Cap Growth ETF and Quaker Global Tactical Allocation Fund (QTRAX) is the worst rated Large Cap Growth mutual fund. MTUM is rated Neutral and QTRAX is rated Very Dangerous.

Discover Financial Services (DFS: $56/share) is one of our favorite stocks held by Large Cap Growth ETFs and mutual funds and earns a Very Attractive rating. Since 2007, DFS has grown after-tax profit (NOPAT) by 12% compounded annually. The company has improved its return on invested capital (ROIC) from 14% in 2007 to a top-quintile 21% over the last twelve months (TTM). Despite the fundamental improvement in the business, DFS remains undervalued. At its current price of $56/share, DFS has a price-to-economic book value (PEBV) ratio of 0.7. This ratio means the market expects DFS' NOPAT to permanently decline by 30%. If DFS can grow NOPAT by 4% compounded annually over the next decade, the stock is worth $88/share today – a 55% upside.

Bristol Myers Squibb Company (BMY: $50/share) is one of our least favorite stocks held by ELGAX and earns a Dangerous rating. Over the past decade, BMY's NOPAT has declined by 6% compounded annually. The company's ROIC has fallen from 18% in 2005 to 11% over the last twelve months. Despite the deterioration of the business' operations, BMY remains priced for significant profit growth. In order to justify its current price of $50/share, BMY must grow NOPAT by 12% compounded annually for the next 13 years. This scenario seems overly optimistic given BMY's profit decline over the past decade.

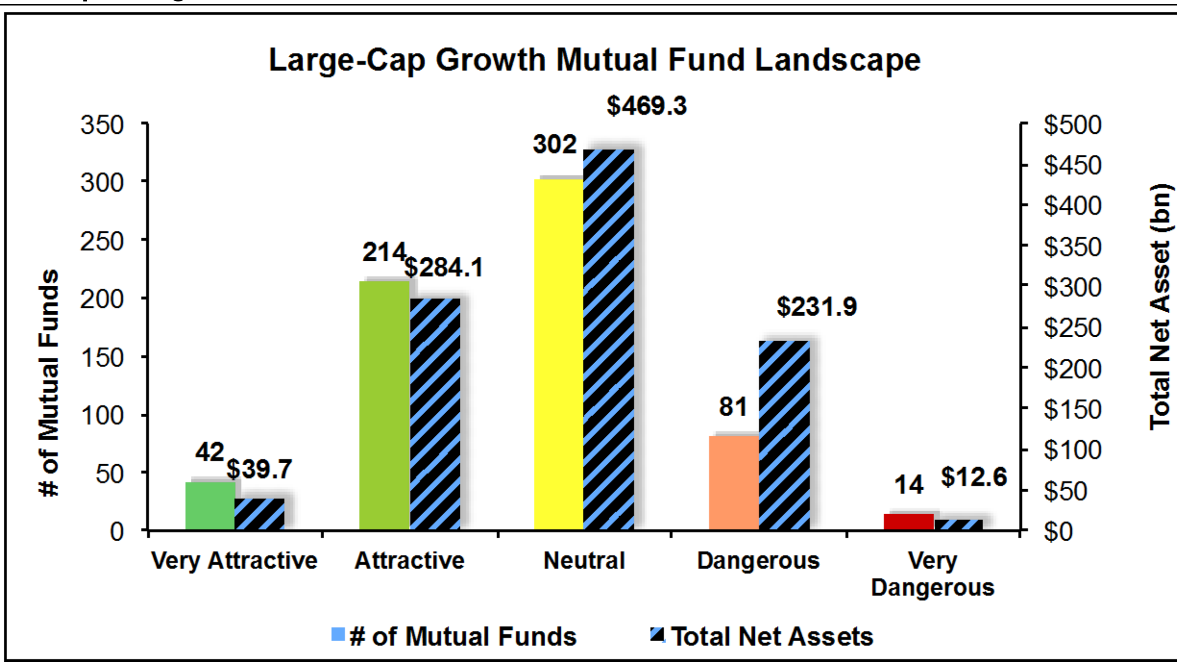
Figures 3 and 4 show the rating landscape of all Large Cap Growth ETFs and mutual funds.

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

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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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