ETF & Mutual Fund Rankings: Large Cap Value Style

The Large Cap Value style ranks third out of the twelve fund styles as detailed in our 4Q16 Style Ratings for ETFs and Mutual Funds report. Last quarter, the Large Cap Value style ranked second. It gets our Neutral rating, which is based on an aggregation of ratings of 47 ETFs and 844 mutual funds in the Large Cap Value 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 Value style ETFs and mutual funds are created the same. The number of holdings varies widely (from 19 to 900). This variation creates drastically different investment implications and, therefore, ratings.

Investors seeking exposure to the Large 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				
QDEF	41%	30%	26%	Very Attractive
PWV	47%	29%	24%	Very Attractive
VLUE	38%	26%	37%	Very Attractive
DGRW	26%	61%	13%	Very Attractive
SCHD	33%	46%	21%	Very Attractive
Worst ETFs				
DHS	21%	25%	51%	Neutral
PXLV	17%	19%	62%	Neutral
DVY	16%	29%	55%	Neutral
DIV	15%	26%	32%	Neutral
PEY	14%	36%	50%	Neutral

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

Sources: New Constructs, LLC and company filings

Four ETFs are excluded from Figure 1 because their total net assets (TNA) are below $100 million and do not meet our liquidity minimums. To see these ETFs please view our fund screener page.

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				
LBISX	39%	31%	25%	Very Attractive
LBWIX	39%	31%	25%	Very Attractive
LBDRX	39%	31%	25%	Very Attractive
LBWCX	39%	31%	25%	Very Attractive
SGISX	25%	42%	8%	Very Attractive
Worst Mutual Funds				
SFOAX	25%	19%	49%	Very Dangerous
IVVEX	22%	32%	34%	Very Dangerous
HCMNX	28%	15%	52%	Very Dangerous
GHTAX	15%	17%	40%	Very Dangerous
HCMWX	28%	15%	52%	Very Dangerous

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

Sources: New Constructs, LLC and company filings

Legg Mason BW Dynamic Large Cap Value Fund (LMBGX, LMBEX, LMBHX, LMBBX) is excluded from Figure 2 because its total net assets (TNA) are below $100 million and do not meet our liquidity minimums.

FlexShares Quality Dividend Defensive Fund (QDEF) is the top-rated Large Cap Value ETF and Legg Mason Diversified Large Cap Value Fund (LBISX) is the top-rated Large Cap Value mutual fund. Both earn a Very Attractive rating.

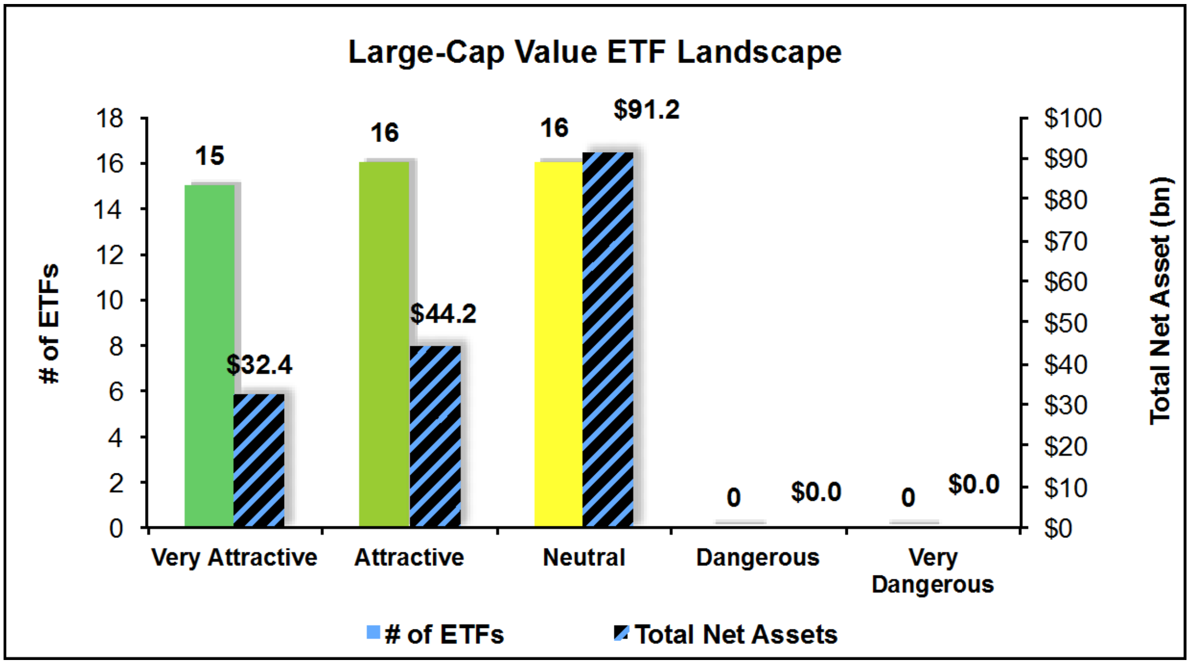
PowerShares High Yield Equity Dividend Achievers Portfolio (PEY) is the worst rated Large Cap Value ETF and HCM Dividend Sector Plus Fund (HCMWX) is the worst rated Large Cap Value mutual fund. DVY earns a Neutral rating and HCMWX earns a Very Dangerous rating.

Cisco Systems (CSCO: $31/share) is one of our favorite stocks held by BIGRX and earns a Very Attractive rating. Cisco was first featured as a Long Idea in August 2012 and remains a quality value investment. Over the past decade, CSCO has grown after-tax profit (NOPAT) by 7% compounded annually. CSCO has improved its return on invested capital (ROIC) from 15% in 2006 to a top-quintile 18% in 2016. Despite the impressive profit growth, shares remain undervalued. At its current price of $31/share, CSCO has a price-to-economic book value (PEBV) ratio of 0.8. This ratio means the market expects Cisco's NOPAT to permanently decline by 20%. If Cisco can grow NOPAT by just 4% compounded annually over the next decade, the stock is worth $44/share today – a 42% upside.

FelCor Lodging Trust (FCH: $7/share) is one of our least favorite companies held by GHTAX and earns a Very Dangerous rating. Since 2006, FCH's NOPAT has declined by 6% compounded annually. The company's ROIC has fallen from 7% in 2006 to a bottom-quintile 4% over the last twelve months (TTM). Despite the deterioration of the business' fundamentals, FCH remains overvalued. To justify its current stock price of $7/share, FCH would have to grow NOPAT by 14% compounded annually for the next 11 years.. This scenario seems overly optimistic given the decline of FelCor's NOPAT since 2006.

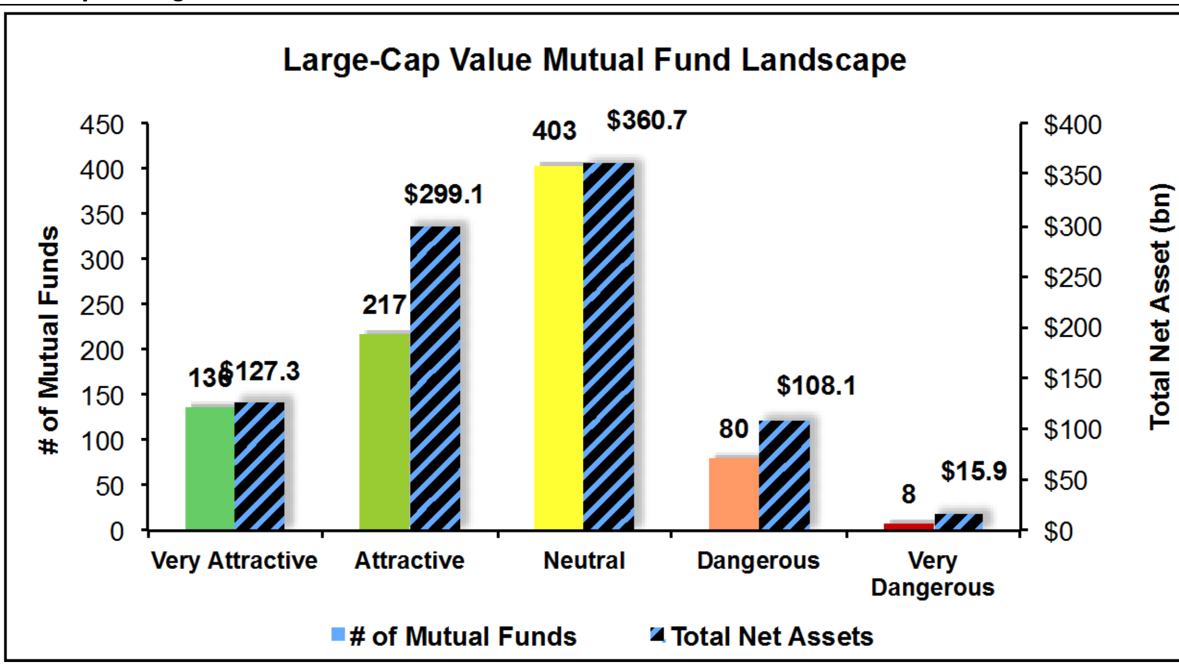
Figures 3 and 4 show the rating landscape of all Large Cap Value ETFs and mutual funds.

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

This article originally published here on November 4, 2016.

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.

Additional Information

Incorporated in July 2002, New Constructs is an independent publisher of investment research that provides clients with consulting and research services. We specialize in quality-of-earnings, forensic accounting and discounted cash flow valuation analyses for all U.S. public companies. We translate accounting data from 10Ks into economic financial statements, i.e. NOPAT, Invested Capital, and WACC, to create economic earnings models, which are necessary to understand the true profitability and valuation of companies. Visit the Free Archive to download samples of our research. New Constructs is a BBB accredited business and a member of the Investorside Research Association.

DISCLOSURES

New Constructs®, LLC (together with any subsidiaries and/or affiliates, "New Constructs") is an independent organization with no management ties to the companies it covers. None of the members of New Constructs' management team or the management team of any New Constructs' affiliate holds a seat on the Board of Directors of any of the companies New Constructs covers. New Constructs does not perform any investment or merchant banking functions and does not operate a trading desk.

New Constructs' Stock Ownership Policy prevents any of its employees or managers from engaging in Insider Trading and restricts any trading whereby an employee may exploit inside information regarding our stock research. In addition, employees and managers of the company are bound by a code of ethics that restricts them from purchasing or selling a security that they know or should have known was under consideration for inclusion in a New Constructs report nor may they purchase or sell a security for the first 15 days after New Constructs issues a report on that security.

DISCLAIMERS

The information and opinions presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or solicitation of an offer to buy or sell securities or other financial instruments. New Constructs has not taken any steps to ensure that the securities referred to in this report are suitable for any particular investor and nothing in this report constitutes investment, legal, accounting or tax advice. This report includes general information that does not take into account your individual circumstance, financial situation or needs, nor does it represent a personal recommendation to you. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about any such investments or investment services.

Information and opinions presented in this report have been obtained or derived from sources believed by New Constructs to be reliable, but New Constructs makes no representation as to their accuracy, authority, usefulness, reliability, timeliness or completeness. New Constructs accepts no liability for loss arising from the use of the information presented in this report, and New Constructs makes no warranty as to results that may be obtained from the information presented in this report. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information and opinions contained in this report reflect a judgment at its original date of publication by New Constructs and are subject to change without notice. New Constructs may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and New Constructs is under no obligation to insure that such other reports are brought to the attention of any recipient of this report.

New Constructs' reports are intended for distribution to its professional and institutional investor customers. Recipients who are not professionals or institutional investor customers of New Constructs should seek the advice of their independent financial advisor prior to making any investment decision or for any necessary explanation of its contents.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would be subject New Constructs to any registration or licensing requirement within such jurisdiction.

This report may provide the addresses of websites. Except to the extent to which the report refers to New Constructs own website material, New Constructs has not reviewed the linked site and takes no responsibility for the content therein. Such address or hyperlink (including addresses or hyperlinks to New Constructs own website material) is provided solely for your convenience and the information and content of the linked site do not in any way form part of this report. Accessing such websites or following such hyperlink through this report shall be at your own risk.