ETF & Mutual Fund Rankings: Mid Cap Growth Style

The Mid Cap Growth style ranks eighth out of the twelve fund styles as detailed in our 4Q16 Style Ratings for ETFs and Mutual Funds report. Last quarter, the Mid Cap Growth style ranked eighth as well. It gets our Neutral rating, which is based on an aggregation of ratings of nine ETFs and 356 mutual funds in the Mid Cap Growth style as of November 7, 2016. See a recap of our 3Q16 Style Ratings here.

Figure 1 ranks from best to worst all nine Mid-Cap Growth ETFs and Figure 2 shows the five best and worst-rated Mid-Cap Growth mutual funds. Not all Mid-Cap Growth style ETFs and mutual funds are created the same. The number of holdings varies widely (from 19 to 1692). This variation creates drastically different investment implications and, therefore, ratings.

Investors seeking exposure to the Mid-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 (only 4)				
BFOR	24%	43%	19%	**Very Attractive**
MDYG	15%	47%	33%	**Attractive**
IVOG	15%	45%	35%	**Attractive**
IJK	15%	45%	36%	**Attractive**
Worst ETFs				
PXMG	10%	37%	45%	**Attractive**
VOT	15%	32%	49%	**Neutral**
JKH	8%	36%	50%	**Neutral**
DWAQ	8%	46%	41%	**Neutral**

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

Sources: New Constructs, LLC and company filings

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		
IMIDX	24%	55%	9%	Very Attractive
CMIDX	24%	55%	9%	Very Attractive
CANIX	15%	46%	26%	Attractive
CRBYX	15%	46%	26%	Attractive
CRBRX	15%	46%	26%	Attractive
		Worst Mutual Funds		
PYSOX	6%	22%	41%	Very Dangerous
PYSMX	6%	22%	41%	Very Dangerous
PYSAX	6%	22%	41%	Very Dangerous
ALMAX	3%	28%	57%	Very Dangerous
FRSDX	4%	33%	52%	Very Dangerous

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

Sources: New Constructs, LLC and company filings

Four stocks are excluded from Figure 2 because their total net assets (TNA) are below $100 million and do not meet our liquidity minimums. See our mutual fund screener for more details.

ALPS Barron's 400 ETF (BFOR) is the top-rated Mid Cap Growth ETF and Congress Mid Cap Growth Fund (IMIDX) is the top-rated Mid Cap Growth mutual fund. Both earn a Very Attractive rating.

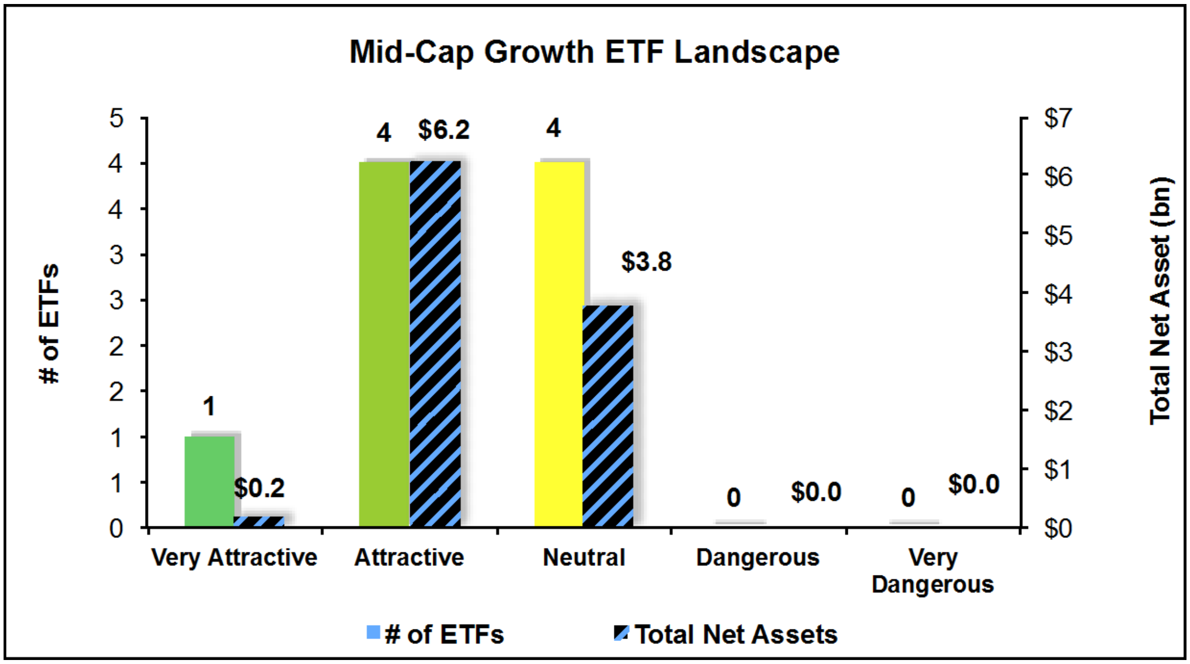
PowerShares DWA NASDAQ Momentum Portfolio (DWAQ) is the worst rated Mid Cap Growth ETF and Dreyfus Mid-Cap Growth Fund (FRSDX) is the worst rated Mid Cap Growth mutual fund. DWAQ earns a Neutral rating and FRSDX earns a Very Dangerous rating.

Foot Locker (FL: $66/share) is one of our favorite stocks held by IMIDX and it earns an Attractive rating. Foot Locker was a featured Long Idea in May 2015. Over the past decade, Foot Locker has grown after-tax profit (NOPAT) by 8% compounded annually. The company has improved its return on invested capital (ROIC) from 6% in 2006 to 10% over the last twelve months (TTM). Despite improvements to the underlying profitability of the business, FL remains undervalued. At its current price of $66/share, Foot Locker has a price-to-economic book value (PEBV) ratio of 1.0. This ratio means that the market expects FL's NOPAT to never meaningfully grow over the remainder of its corporate life. If Foot Locker can grow NOPAT by just 5% compounded annually over the next decade, the stock is worth $93/share today– a 41% upside.

DISH Network Corp (DISH: $57/share) is one of our least favorite stocks held by PYSOX and earns a Dangerous rating. DISH's economic earnings have fallen from $557 million in 2005 to -$35 million in 2015, and even further, to -$278 million TTM. The company's ROIC has fallen from 26% in 2005 to 8% TTM. In light of the deteriorating fundamentals, DISH is significantly overvalued. To justify its current price of $57/share, DISH must grow NOPAT by 11% compounded annually for the next 13 years. This expectation seems overly optimistic given Dish's declining profits over the last decade.

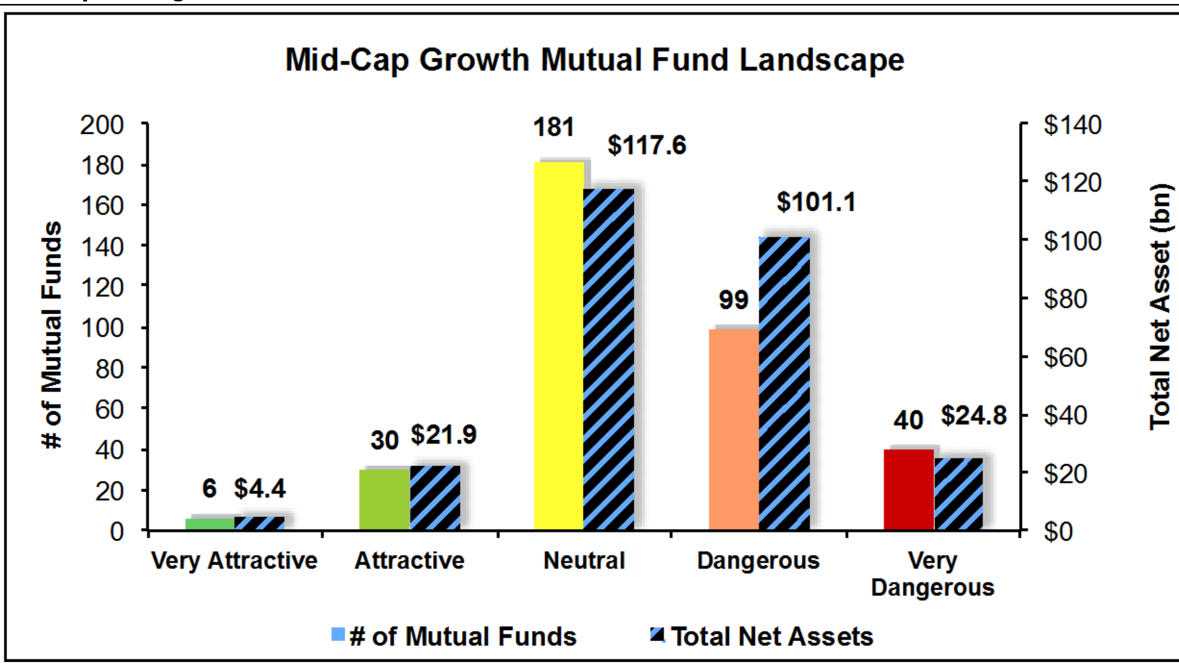
Figures 3 and 4 show the rating landscape of all Mid-Cap Growth ETFs and mutual funds.

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.

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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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