# ETF & Mutual Fund Rankings: Mid Cap Value Style

The Mid Cap Value style ranks ninth out of the twelve fund styles as detailed in our 4Q16 Style Ratings for ETFs and Mutual Funds report. Last quarter, the Mid Cap Value style ranked ninth as well. It gets our Dangerous rating, which is based on an aggregation of ratings of nine ETFs and 104 mutual funds in the Mid Cap Value style as of November 7, 2016. See a recap of our 3Q16 Style Ratings here.

Figure 1 ranks from best to worst the eight Mid-Cap Value ETFs that meet our liquidity standards and Figure 2 shows the five best and worst rated Mid-Cap Value mutual funds. Not all Mid-Cap Value style ETFs and mutual funds are created the same. The number of holdings varies widely (from 22 to 2006). This variation creates drastically different investment implications and, therefore, ratings.

Investors seeking exposure to the Mid-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)** | | | | |
| KNOW | 36% | 30% | 31% | **Attractive** |
| FAB | 27% | 32% | 36% | **Attractive** |
| DON | 18% | 32% | 45% | **Neutral** |
| **Worst ETFs** | | | | |
| VUSE | 29% | 27% | 38% | **Neutral** |
| VOE | 19% | 33% | 43% | **Neutral** |
| IWS | 15% | 28% | 50% | **Neutral** |
| JKI | 20% | 30% | 47% | **Neutral** |
| PXMV | 13% | 24% | 56% | **Dangerous** |

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

Sources: New Constructs, LLC and company filings

Alpha ValueShares US Quantitative Value ETF (QVAL) 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** | | | | |
| HNMVX | 27% | 38% | 30% | Attractive |
| HAMVX | 27% | 38% | 30% | Attractive |
| HRMVX | 27% | 38% | 30% | Neutral |
| HIMVX | 27% | 38% | 30% | Neutral |
| NMVLX | 12% | 37% | 31% | Neutral |
| **Worst Mutual Funds** | | | | |
| GOODX | 14% | 24% | 25% | Very Dangerous |
| FRBSX | 12% | 15% | 51% | Very Dangerous |
| HWMAX | 16% | 21% | 41% | Very Dangerous |
| MAIMX | 9% | 31% | 51% | Very Dangerous |
| GWSAX | 4% | 19% | 56% | Very Dangerous |

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

Sources: New Constructs, LLC and company filings

Huber Capital Mid-Cap Value Fund (HUMEX) is excluded from Figure 2 because its total net assets (TNA) are below $100 million and do not meet our liquidity minimums.

Direxion All Cap Insider Sentiment Shares (KNOW) is the top-rated Mid Cap Value ETF and Harbor Mid Cap Value Fund (HNMVX) is the top-rated Mid Cap Value mutual fund. Both earn an Attractive rating.

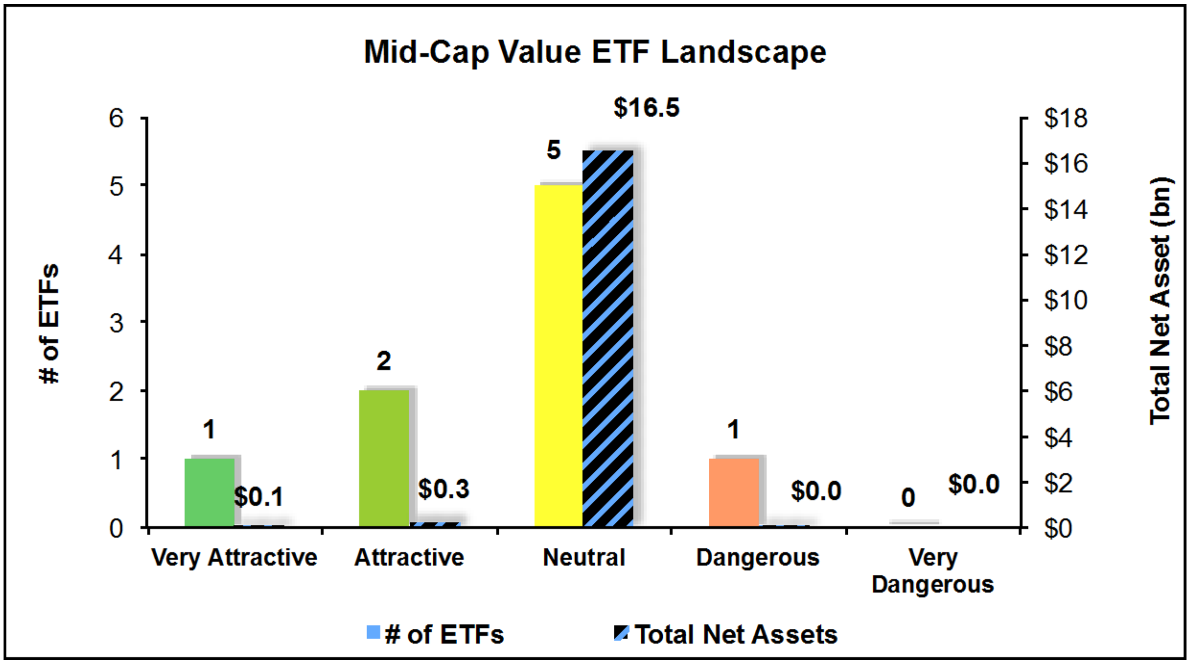
PowerShares Russell Midcap Pure Value Portfolio (PXMV) is the worst rated Mid Cap Value ETF and Gabelli Focus Five Fund (GWSAX) is the worst rated Mid Cap Value mutual fund. PXMV earns a Dangerous rating and GWSAX earns a Very Dangerous rating.

Best Buy Co (BBY: $39/share) is one of our favorite stocks held by KNOW and earns a Very Attractive rating. Best Buy is also on November's Most Attractive Stocks list. Since 2004, Best Buy has grown after-tax profit (NOPAT) by 3% compounded annually. The company consistently earns a double-digit return on invested capital (ROIC) and currently earns a 13% ROIC. Most importantly, Best Buy has generated positive economic earnings each year since 2002. Despite the impressive fundamentals, BBY remains undervalued. At its current price of $39/share, Best Buy has a price-to-economic book value (PEBV) ratio of 0.7. This ratio means the market expects BBY's NOPAT to permanently decline by 30%. If BBY can grow NOPAT by just 2% compounded annually for the next decade, the stock is worth $48/share today– a 23% upside.

NRG Energy (NRG: $11/share) is one of our least favorite stocks held by HWMAX and earns a Dangerous rating. Over the past decade, NRG's economic earnings have declined from -$4 million in 2005 to -$1.6 billion in 2015. NRG's economic earnings sit at -$1.4 billion over the last twelve months. The company's ROIC has fallen from 9% in 2005 to a bottom-quintile 3% TTM. Despite the deterioration in business fundamentals, NRG is priced for significant profit growth. To justify its current stock price of $11/share, NRG must grow NOPAT by 8% compounded annually over the next 14 years. This expectation seems overly optimistic given the past decade of profit decline.

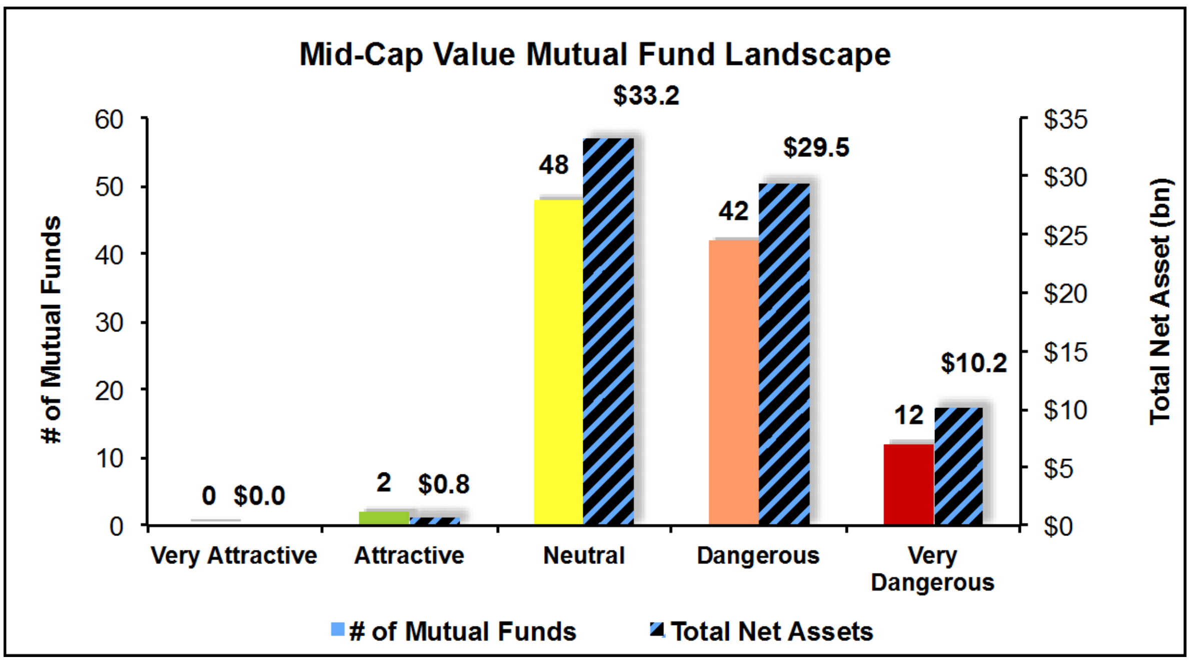
Figures 3 and 4 show the rating landscape of all Mid-Cap Value ETFs and mutual funds.

**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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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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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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