



ETF & Mutual Fund Rankings: Small Cap Value Style

The Small Cap Value style ranks last out of the twelve fund styles as detailed in our [4Q16 Style Ratings for ETFs and Mutual Funds](#) report. [Last quarter](#), the Small Cap Value style ranked last as well. It gets our Dangerous rating, which is based on an aggregation of ratings of 19 ETFs and 264 mutual funds in the Small Cap Value style as of November 9, 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 Small Cap Value style ETFs and mutual funds are created the same. The number of holdings varies widely (from 29 to 1482). This variation creates drastically different investment implications and, therefore, ratings.

Investors seeking exposure to the Small 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				
VBR	15%	33%	41%	Neutral
SMLV	18%	43%	30%	Neutral
XSLV	9%	51%	37%	Neutral
DES	12%	28%	46%	Neutral
MDYV	17%	32%	45%	Neutral
Worst ETFs				
JKL	15%	25%	48%	Neutral
PXSV	13%	24%	49%	Neutral
FYT	14%	37%	42%	Neutral
RZV	6%	24%	60%	Dangerous
RFV	12%	25%	57%	Dangerous

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

Sources: New Constructs, LLC and company filings

First Trust Dow Jones Select Micro Cap Index Fund (FDM) and First Trust Mid Cap Value AlphaDEX Fund (FNK) are excluded from Figure 1 because their 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				
RYSEX	22%	47%	16%	Very Attractive
RSEFX	22%	47%	16%	Very Attractive
RSEIX	22%	47%	16%	Very Attractive
RSQCX	22%	47%	16%	Very Attractive
RVFIX	19%	50%	14%	Attractive
Worst Mutual Funds				
SNWAX	10%	32%	53%	Very Dangerous
IYSAX	3%	20%	59%	Very Dangerous
IYVIX	3%	20%	59%	Very Dangerous
MLPIX	16%	31%	43%	Very Dangerous
MLPSX	16%	31%	43%	Very Dangerous

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

Sources: New Constructs, LLC and company filings

Vanguard Small-Cap Value Index Fund (VBR) is the top-rated Small Cap Value ETF and Royce Special Equity Fund (RYSEX) is the top-rated Small Cap Value mutual fund. VBR earns a Neutral rating and RYSEX earns a Very Attractive rating.

Guggenheim S&P MidCap 400 Pure Value ETF (RFV) is the worst rated Small Cap Value ETF and ProFunds Mid-Cap Value (MLPSX) is the worst rated Small Cap Value mutual fund. RFV earns a Dangerous rating and MLPSX earns a Very Dangerous rating.

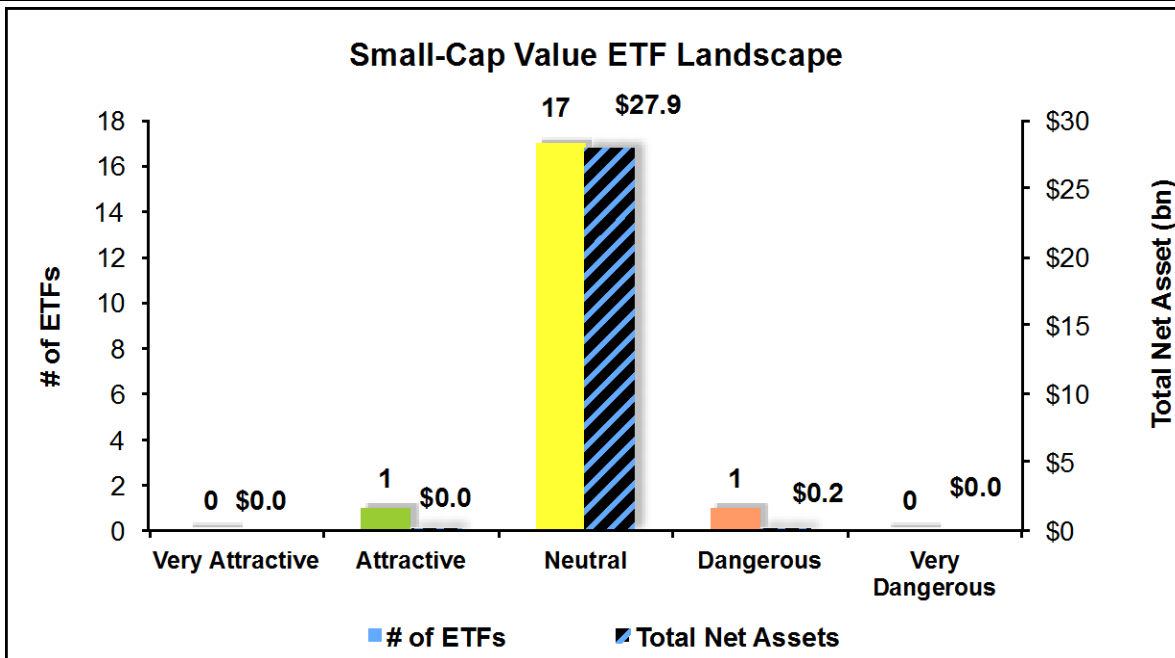
PC Connection (CNXN: \$23/share) is one of our favorite stocks held by RVFIX and earns an Attractive rating. Over the past decade PC Connection has grown after-tax profit ([NOPAT](#)) by 22% compounded annually. The company has improved its return on invested capital ([ROIC](#)) from 3% in 2005 to 11% over the last twelve months (TTM). Despite the improving fundamentals, CNXN remains undervalued. At its current price of \$23/share, CNXN has a price-to-economic book value ([PEBV](#)) ratio of 0.9. This ratio means the market expects CNXN's NOPAT to permanently decline by 10%. If CNXN can [grow NOPAT by 7% compounded annually for the next decade](#), the stock is worth \$30/share today – a 30% upside.

Steel Dynamics (STLD: \$27/share) is one of our least favorite stocks held by MLPSX and earns a Dangerous rating. Over the past five years, STLD's NOPAT has declined 12% compounded annually. The company's ROIC has fallen 16% in 2005 to 6% TTM. Making matters worse, STLD has not generated positive [economic earnings](#) since 2008. Despite the clear deterioration of fundamentals, STLD remains overvalued. To justify its current price of \$27/share, STLD must [grow NOPAT by 14% compounded annually for the next decade](#). These expectations seem overly optimistic given the operational struggles and profit decline of late.



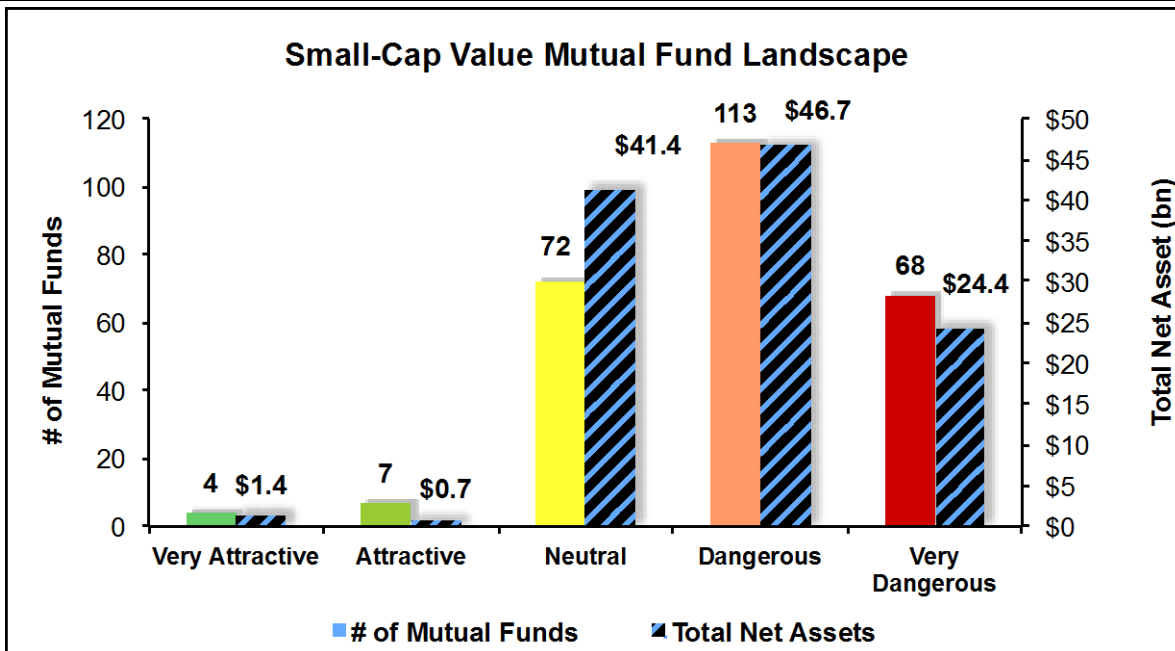
Figures 3 and 4 show the rating landscape of all Small Cap Value ETFs and mutual funds.

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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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

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