



How To Find the Best Style ETFs

Finding the best ETFs is an increasingly difficult task in a world with so many to choose from. How can you pick with so many choices available?

Don't Trust ETF Labels

There are at least 83 different All Cap Blend ETFs and at least 293 ETFs across twelve styles. Do investors need 24+ choices on average per style? How different can the ETFs be?

Those 83 All Cap Blend ETFs are very different. With anywhere from 21 to 3,682 holdings, many of the All Cap Blend ETFs have drastically different portfolios, creating drastically different investment implications.

The same is true for the ETFs in any other style, as each offers a very different mix of good and bad stocks. Large Cap Blend ranks first for stock selection. Small Cap Value ranks last. Details on the [Best & Worst ETFs in each style are here.](#)

A Recipe for Paralysis By Analysis

We think the large number of All Cap Blend (or any other) style ETFs hurts investors more than it helps because too many options can be paralyzing. It is simply not possible for the majority of investors to properly assess the quality of so many ETFs. Analyzing ETFs, done with the proper diligence, is far more difficult than analyzing stocks because it means analyzing all the stocks within each ETF. As stated above, that can be as many as 3,682 stocks, and sometimes even more, for one ETF.

Any investor focused on [fulfilling fiduciary duties](#) recognizes that analyzing the holdings of an ETF is critical to finding the best ETF. Figure 1 shows our top rated ETF for each style.

Figure 1: The Best ETF in Each Style

| Ticker | Name | Investment Style | Assets (\$mm) |
|--------|--|------------------|---------------|
| SPLV | PowerShares S&P 500 Low Volatility | All Cap Blend | \$6,112 |
| QVM | Arrow QVM Equity Factor ETF | All Cap Growth | \$5 |
| PRF | PowerShares FTSE RAFI U.S. 1000 Portfolio | All Cap Value | \$4,771 |
| PHDG | PowerShares S&P 500 Downside Hedged Portfolio | Large Cap Blend | \$89 |
| IWF | iShares Russell 1000 Growth | Large Cap Growth | \$31,984 |
| FDL | First Trust Morningstar Dividend Leaders Index | Large Cap Value | \$1,757 |
| WBID | Absolute Shares WBI Tactical SMS Shares | Mid Cap Blend | \$67 |
| PXMG | PowerShares Russell Mid Cap Pure Growth | Mid Cap Growth | \$63 |
| QVAL | Alpha ValueShares US Quantitative Value ETF | Mid Cap Value | \$62 |
| VALX | ETF Series Solutions Validea Market Legends ETF | Small Cap Blend | \$22 |
| VBK | Vanguard Small Cap Growth Index | Small Cap Growth | \$5,638 |
| XSLV | PowerShares S&P Small Cap Low Volatility Portfolio | Small Cap Value | \$912 |

Sources: New Constructs, LLC and company filings

Amongst the ETFs in Figure 1, PowerShares S&P 500 Low Volatility Portfolio (SPLV) ranks first overall, First Trust Morningstar Dividend Leaders Index (FDL) ranks second, and PowerShares S&P 500 Downside Hedged Portfolio (PHDG) ranks third. Vanguard Small Cap Growth Index (VBK) ranks last.

How to Avoid "The Danger Within"

Why do you need to know the holdings of ETFs before you buy?

You need to be sure you do not buy an ETF that might blow up. Buying an ETF without analyzing its holdings is like buying a stock without analyzing its business and finances. No matter how cheap, if it holds bad stocks, the ETF's performance will be bad. Don't just take our word for it, see [what Barron's says](#) on this matter.

PERFORMANCE OF FUND'S HOLDINGS = PERFORMANCE OF FUND

If Only Investors Could Find Funds Rated by Their Holdings

Our [ETF ratings](#) leverage our [stock coverage](#). We rate ETFs based on the aggregated ratings of the stocks each ETF holds.

PowerShares S&P 500 Low Volatility Portfolio (SPLV) is not only the top-rated All Cap Blend ETF, but is also the overall best style ETF out of the 293 style ETFs that we cover.

The worst ETF in Figure 1 is Vanguard Small Cap Growth Index (VBK), which gets a Neutral rating. One would think ETF providers could do better for this style.

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Disclosure: David Trainer, Kyle Guske II, and Kyle Martone receive no compensation to write about any specific stock, style, or theme.

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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](#).

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