ETF & Mutual Fund Rankings: Small Cap Blend Style

The Small Cap Blend style ranks ninth out of the twelve fund styles as detailed in our 1Q17 Style Ratings for ETFs and Mutual Funds report. Last quarter, the Small Cap Blend style ranked tenth. It gets our Dangerous rating, which is based on an aggregation of ratings of 24 ETFs and 736 mutual funds in the Small Cap Blend style as of January 31, 2017. See a recap of our 4Q16 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 Blend style ETFs and mutual funds are created the same. The number of holdings varies widely (from 18 to 2,374). This variation creates drastically different investment implications and, therefore, ratings.

Investors seeking exposure to the Small Cap Blend style should buy one of the Attractive-or-better rated ETFs or mutual funds from Figures 1 and 2.

Here is our ETF and mutual fund rating methodology, which leverages our rigorous analysis of each fund's holdings. We think advisors and investors focused on prudent investment decisions should include analysis of fund holdings in their research process for ETFs and mutual funds.

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				
EZM	24%	45%	26%	Attractive
EES	18%	40%	28%	Attractive
SMDV	12%	52%	36%	Neutral
RWJ	16%	41%	35%	Neutral
RWK	20%	43%	30%	Neutral
Worst ETFs				
SMCP	17%	39%	20%	Neutral
FNX	24%	38%	30%	Neutral
EQWS	15%	5%	34%	Dangerous
PRFZ	14%	33%	41%	Dangerous
FYX	15%	35%	34%	Dangerous

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

Sources: New Constructs, LLC and company filings

Validea Market Legends (VALX), VictoryShares U.S. Discovery Enhanced Volatility (CSF), and iShares Edge MSCI Multifactor USA Small-Cap (SMLF) 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				
FCPVX	19%	46%	18%	Attractive
FCVIX	19%	46%	18%	Attractive
RTRRX	24%	40%	17%	Attractive
RTRKX	24%	40%	17%	Attractive
RYTFX	24%	40%	17%	Attractive
Worst Mutual Funds				
LSMBX	24%	33%	26%	Very Dangerous
CCVAX	21%	39%	29%	Very Dangerous
FISSX	16%	29%	25%	Very Dangerous
DLBMX	15%	30%	34%	Very Dangerous
FISBX	16%	29%	25%	Very Dangerous

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

Sources: New Constructs, LLC and company filings

Lyons Small Cap Fund (LFSAX), Rational Defensive Growth Fund (HSUCX), American Beacon Zebra Small Cap Equity Fund (AZSPX) are excluded from Figure 2 because their total net assets (TNA) are below $100 million and do not meet our liquidity minimums.

WisdomTree MidCap Earnings Fund (EZM) is the top-rated Small Cap Blend ETF and Fidelity Small Cap Value Fund (FCPVX) is the top-rated Small Cap Blend mutual fund. Both earn an Attractive rating.

First Trust Small Cap Core AlphaDEX Fund (FYX) is the worst rated Small Cap Blend ETF and First Investors Special Situations Fund (FISBX) is the worst rated Small Cap Blend mutual fund. FYX earns a Dangerous rating and FISBX earns a Very Dangerous rating.

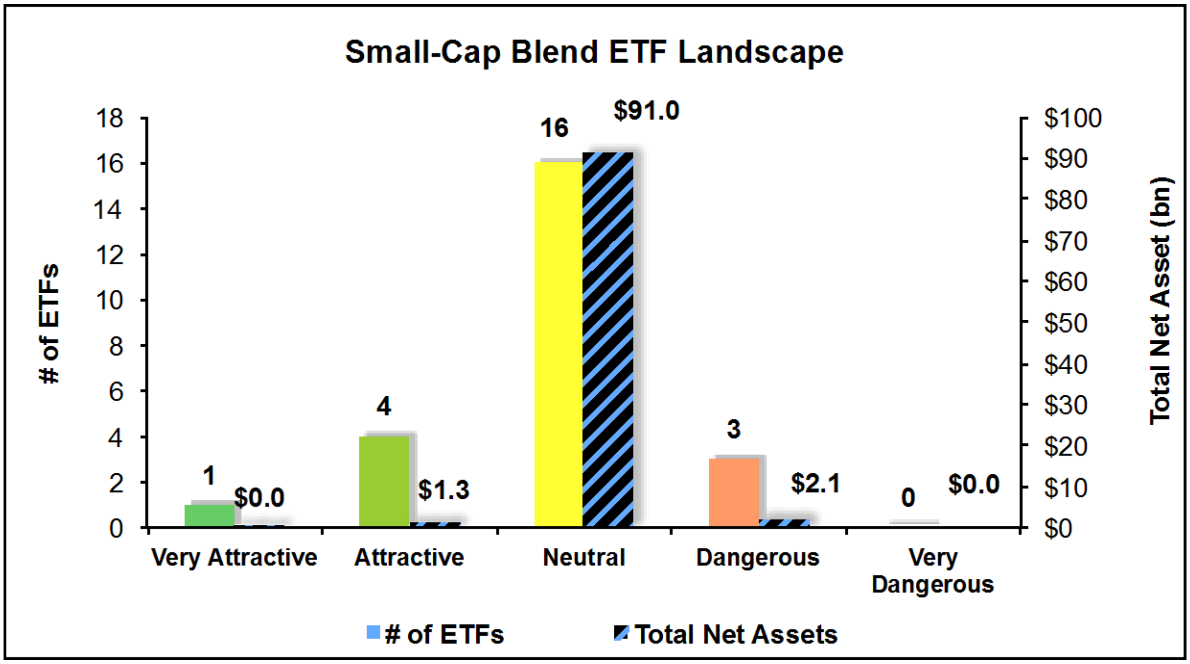
The Danger Within

Buying a fund without analyzing its holdings is like buying a stock without analyzing its business and finances. Put another way, research on fund holdings is necessary due diligence because a fund's performance is only as good as its holdings' performance. Don't just take our word for it, see what Barron's says on this matter.

PERFORMANCE OF HOLDINGs = PERFORMANCE OF FUND

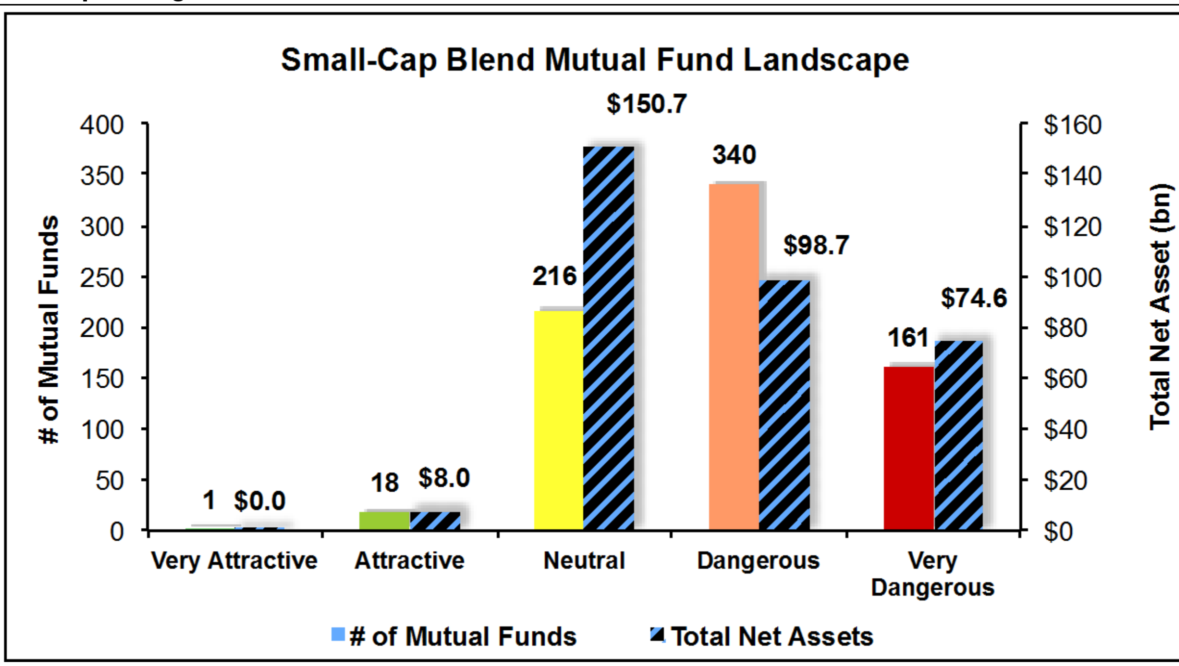
Figures 3 and 4 show the rating landscape of all Small Cap Blend ETFs and mutual funds.

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 II, 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

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