



How to Find the Best Style Mutual Funds

Finding the best mutual funds 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 Mutual Fund Labels

There are at least 927 different Large Cap Value mutual funds and at least 6,170 mutual funds across twelve styles. Do investors need 514+ choices on average per style? How different can the mutual funds be?

Those 927 Large Cap Value mutual funds are very different. With anywhere from 20 to 884 holdings, many of these Large Cap Value mutual funds have drastically different portfolios, creating drastically different investment implications.

The same is true for the mutual funds 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 mutual funds in each style are here](#).

Paralysis by Analysis

We think the large number of Large Cap Value (or any other) style mutual funds 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 mutual funds. Analyzing mutual funds, done with the proper diligence, is far more difficult than analyzing stocks because it means analyzing all the stocks within each mutual fund. As stated above, there can be as many as 884 stocks or more for one mutual fund.

Anyone focused on [fulfilling the fiduciary duty of care](#) recognizes that analyzing the holdings of a mutual fund is critical to finding the best mutual fund. Figure 1 shows our top rated mutual fund for each style.

Figure 1: The Best Mutual Fund in Each Style

Ticker	Name	Investment Style	Assets (\$mm)
QCERX	AQR Large Cap Multi-Style	All Cap Blend	\$1,621
JGISX	J.P. Morgan Intrepid Growth	All Cap Growth	\$1,022
LSVMX	LSV U.S. Managed Volatility	All Cap Value	\$78
GMCQX	GMO U.S. Equity Allocation VI	Large Cap Blend	\$1,574
FUQIX	Fidelity SAI U.S. Quality Index	Large Cap Growth	\$4,793
LMBGX	Legg Mason BW Dynamic Large Cap Value	Large Cap Value	\$42
BALIX	Barrow Value Opportunity	Mid Cap Blend	\$34
IMIDX	Congress Mid Cap Growth	Mid Cap Growth	\$715
HNMVX	Harbor Mid Cap Value	Mid Cap Value	\$936
BTSMX	Boston Trust SMID Cap	Small Cap Blend	\$7
VQSRX	Virtus Quality Small Cap	Small Cap Growth	\$361
ANFVX	AllianzGI NFJ Small Cap Value	Small Cap Value	\$3,488

Sources: New Constructs, LLC and company filings

Amongst the mutual funds in Figure 1, Legg Mason BW Dynamic Large Cap Value (LMBGX) ranks first overall, Fidelity SAI U.S. Quality Index (FUQIX) ranks second, and AQR Large Cap Multi-Style (QCERX) ranks third. Virtus Quality Small Cap (VQSRX) ranks last.

How to Avoid “The Danger Within”

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



You need to be sure you do not buy a fund that might blow up. Buying a fund 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 mutual fund's performance will be bad. Don't just take my word for it, see [what Barron's says](#) on this matter.

PERFORMANCE OF FUND'S HOLDINGS = PERFORMANCE OF FUND

Analyzing each holding within funds is no small task. Our [Robo-Analyst technology](#) enables us to perform this diligence with scale and provide the [research needed](#) to fulfill the fiduciary duty of care. More of the biggest names in the financial industry (see [At BlackRock, Machines Are Rising Over Managers to Pick Stocks](#)) are now embracing technology to leverage machines in the investment research process. Technology may be the only solution to the dual mandate for research: cut costs and fulfill the fiduciary duty of care. Investors, clients, advisors and analysts deserve the latest in technology to get the diligence required to make prudent investment decisions.

If Only Investors Could Find Funds Rated by Their Holdings...

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

Legg Mason BW Dynamic Large Cap Value (LMBGX) is not only the top-rated Large Cap Value mutual fund, but is also the overall best style mutual fund out of the 6,170 style mutual funds that we cover.

The mutual funds in Figure 1 all receive an Attractive-or-better rating. However, with so few assets in some of the funds, it is clear investors haven't identified these quality mutual funds.

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

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New Constructs leverages the latest in machine learning to analyze structured and unstructured financial data with unrivaled speed and accuracy. The firm's forensic accounting experts work alongside engineers to develop proprietary NLP libraries and financial models. Our investment ratings are based on the best fundamental data in the business for stocks, ETFs and mutual funds. Clients include many of the top hedge funds, mutual funds and wealth management firms. David Trainer, the firm's CEO, is regularly featured in the media as a thought leader on the fiduciary duty of care, earnings quality, valuation and investment strategy.

To fulfill the Duty of Care, research should be:

1. **Comprehensive** - All relevant publicly-available (e.g. 10-Ks and 10-Qs) information has been diligently reviewed, including footnotes and the management discussion & analysis (MD&A).
2. **Un-conflicted** - Clients deserve unbiased research.
3. **Transparent** - Advisors should be able to show how the analysis was performed and the data behind it.
4. **Relevant** - Empirical evidence must provide [tangible, quantifiable correlation](#) to stock, ETF or mutual fund performance.

Value Investing 2.0: Diligence Matters: Technology is Key to Value Investing With Scale

Accounting data is only the beginning of fundamental research. It must be translated into economic earnings to truly understand profitability and valuation. This translation requires deep analysis of footnotes and the MD&A, a process that our [robo-analyst technology](#) empowers us to perform for thousands of stocks, ETFs and mutual funds.



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