



How to Avoid the Worst Style Mutual Funds

Question: Why are there so many mutual funds?

Answer: Mutual fund providers tend to make lots of money on each fund so they create more products to sell.

The large number of mutual funds has little to do with serving investors' best interests. Below are three red flags investors can use to avoid the worst mutual funds:

1. Inadequate Liquidity

This issue is the easiest issue to avoid, and our advice is simple. Avoid all mutual funds with less than \$100 million in assets. Low levels of liquidity can lead to a discrepancy between the price of the mutual fund and the underlying value of the securities it holds. Plus, low asset levels tend to mean lower volume in the mutual fund and larger bid-ask spreads.

2. High Fees

Mutual funds should be cheap, but not all of them are. The first step here is to know what is cheap and expensive.

To ensure you are paying at or below average fees, invest only in mutual funds with [total annual costs](#) below 1.78%, which is the average total annual cost of the 6527 U.S. equity Style mutual funds we cover. The weighted average is lower at 1.05%, which highlights how investors tend to put their [money in funds with low fees](#).

Figure 1 shows American Growth Fund Series One (AMRAX) is the most expensive style mutual fund and Vanguard 500 Index Fund (VFFSX) is the least expensive. American Growth Fund (AMRAX, AMRBX, AMRGX, AMRCX) provides four of the most expensive mutual funds while Fidelity (FFSMX, FSKAX, FXAIX) mutual funds are among the cheapest.

Figure 1: 5 Most and Least Expensive Style Mutual Funds

Ticker	Name	Style	Total Annual Cost
Most Expensive			
AMRAX	American Growth Fund Series One	All Cap Blend	9.86%
AMRBX	American Growth Fund Series One	All Cap Blend	9.58%
AMRGX	American Growth Fund Series One	All Cap Blend	9.48%
AMRCX	American Growth Fund Series One	All Cap Blend	8.40%
COPLX	Copley Fund, Inc.	All Cap Value	8.27%
Least Expensive			
VFFSX	Vanguard 500 Index Fund	Large Cap Blend	0.02%
VSTSX	Vanguard total Stock Market Index	All Cap Blend	0.02%
FFSMX	Fidelity Total Market Index Fund	All Cap Blend	0.02%
FSKAX	Fidelity Total Market Index Fund	All Cap Blend	0.02%
FXAIX	Fidelity 500 Index Fund	Large Cap Blend	0.03%

Sources: New Constructs, LLC and company filings

Investors need not pay high fees for quality holdings. Vanguard 500 Index Fund (VFFSX) is the best ranked style mutual fund in Figure 1. VFFSX's Neutral [Portfolio Management rating](#) and 0.02% total annual cost earns it a Very Attractive rating. American Beacon Alpha Quant Value Fund (AQVVX) is the best ranked style mutual fund



overall. AQVVX's Neutral Portfolio Management rating and 0.78% total annual cost also earns it a Very Attractive rating.

On the other hand, Fidelity Large Cap Value Index fund (FLCOX) holds poor stocks and earns our Neutral rating, yet has low total annual costs of 0.04%. No matter how cheap a mutual fund, if it holds bad stocks, its performance will be bad. The quality of a mutual fund's holdings matters more than its price.

3. Poor Holdings

Avoiding poor holdings is by far the hardest part of avoiding bad mutual funds, but it is also the most important because a mutual fund's performance is determined more by its holdings than its costs. Figure 2 shows the mutual funds within each style with the worst holdings or [portfolio management ratings](#).

Figure 2: Style Mutual Funds with the Worst Holdings

Ticker	Name	Style	Portfolio Management Rating
COREX	Avondale Core Investment Fund	All Cap Blend	Very Unattractive
TRPWX	TIAA-CREF Mid Cap Growth Fund	All Cap Growth	Unattractive
MLUZX	MassMutual Select Mid Cap Value Fund	All Cap Value	Unattractive
BGGKX	Baillie Gifford U.S. Equity Growth Fund	Large Cap Blend	Unattractive
DPLGX	Jackson Square Large Cap Growth Fund	Large Cap Growth	Unattractive
SSHVX	Sound Shore Fund, Inc.	Large Cap Value	Unattractive
CFSMX	ALPS Series Clarkston Partners Fund	Mid Cap Blend	Unattractive
DBMYX	Dreyfus Investment Funds: The Boston	Mid Cap Growth	Unattractive
CMAFX	CM Advisors Fund	Mid Cap Value	Unattractive
SLPIX	ProFunds Small Cap ProFund	Small Cap Blend	Very Unattractive
RVPHX	Royce Smaller Companies Growth Fund	Small Cap Growth	Very Unattractive
ROFIX	Royce Opportunity Fund	Small Cap Value	Very Unattractive

Sources: New Constructs, LLC and company filings

Royce Funds (RVPHX, ROFIX) appear more often than any other providers in Figure 2, which means that they offer the most mutual funds with the worst holdings.

Royce Smaller Companies Growth Fund (RVPHX) is the worst rated mutual fund in Figure 2. Dreyfus Investment Funds: The Boston (DBMYX), ProFunds Small Cap ProFund (SLPIX), Avondale Core Investment Fund (COREX), Royce Opportunity Fund (ROFIX), and ALPS Series Clarkston Partners Fund (CFSMX) also earn a Very Unattractive [predictive overall rating](#), which means not only do they hold poor stocks, they charge high total annual costs.

Our [overall ratings on mutual funds](#) are based primarily on our [stock ratings](#) of their holdings.

The Danger Within

Buying a mutual fund without analyzing its holdings is like buying a stock without analyzing its business and finances. Put another way, research on mutual fund holdings¹ is necessary due diligence because a mutual 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 MUTUAL FUND'S HOLDINGS = PERFORMANCE OF MUTUAL 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

¹ Ernst & Young's recent white paper "[Getting ROIC Right](#)" proves the superiority of our holdings research and analytics.



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.

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

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2. **Un-conflicted** - Clients deserve unbiased research.
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4. **Relevant** - Empirical evidence must provide [tangible, quantifiable correlation](#) to stock, ETF or mutual fund performance.

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