



## 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 [2Q18 Style Ratings for ETFs and Mutual Funds](#) report. [Last quarter](#), the Small Cap Value style ranked tenth. It gets our Very Unattractive rating, which is based on an aggregation of ratings of 19 ETFs and 250 mutual funds in the Small Cap Value style as of April 23, 2018. See a recap of our [1Q18 Style Ratings here](#).

Figures 1 and 2 show the 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 24 to 1495). 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 mutual funds from Figure 2.

Our [Robo-Analyst technology](#)<sup>1</sup> empowers our unique [ETF and mutual fund rating methodology](#), which leverages our rigorous analysis of each fund's holdings.<sup>2</sup> 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**

Ticker	Allocation of ETF Holdings			Predictive Rating
	Attractive-or-better Stocks	Neutral Stocks	Unattractive-or-worse Stocks	
<b>Best ETFs (only 3)</b>				
VBR	17%	38%	35%	Neutral
SMLV	17%	37%	31%	Neutral
DES	16%	37%	35%	Neutral
<b>Worst ETFs</b>				
IWN	11%	32%	42%	Unattractive
IJS	10%	36%	48%	Unattractive
PXSV	13%	27%	45%	Unattractive
RWJ	9%	36%	48%	Unattractive
RZV	8%	33%	46%	Unattractive

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

Sources: New Constructs, LLC and company filings

Legg mason Small Cap Quality Value (SQLV) 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.

<sup>1</sup> Harvard Business School features the powerful impact of our research automation technology in the case [New Constructs: Disrupting Fundamental Analysis with Robo-Analysts](#).

<sup>2</sup> Ernst & Young's recent white paper "[Getting ROIC Right](#)" proves the superiority of our holdings research and analytics.



**Figure 2: Mutual Funds with the Best & Worst Ratings – Top 5**

Ticker	Allocation of Mutual Fund Holdings			Predictive Rating
	Attractive-or-better Stocks	Neutral Stocks	Unattractive-or-worse Stocks	
<b>Best Mutual Funds</b>				
RSEIX	37%	37%	10%	Very Attractive
RYSEX	37%	37%	10%	Very Attractive
RSEFX	37%	37%	10%	Very Attractive
RSQCX	37%	37%	10%	Very Attractive
RVFIX	29%	37%	10%	Very Attractive
<b>Worst Mutual Funds</b>				
PSLAX	11%	22%	39%	Very Unattractive
SBVAX	10%	32%	40%	Very Unattractive
PGISX	0%	10%	79%	Very Unattractive
PGSCX	0%	10%	79%	Very Unattractive
PASMX	0%	10%	79%	Very Unattractive

\* 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 (RSEIX) is the top-rated Small Cap Value mutual fund. VBR earns a Neutral rating and RSEIX earns a Very Attractive rating.

PowerShares S&P Small Cap 600 Pure Value Portfolio (RZV) is the worst rated Small Cap Value ETF and Pacific Advisors Small Cap Value Fund (PASMX) is the worst rated Small Cap Value mutual fund. RZV earns an Unattractive rating and PASMX earns a Very Unattractive 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.

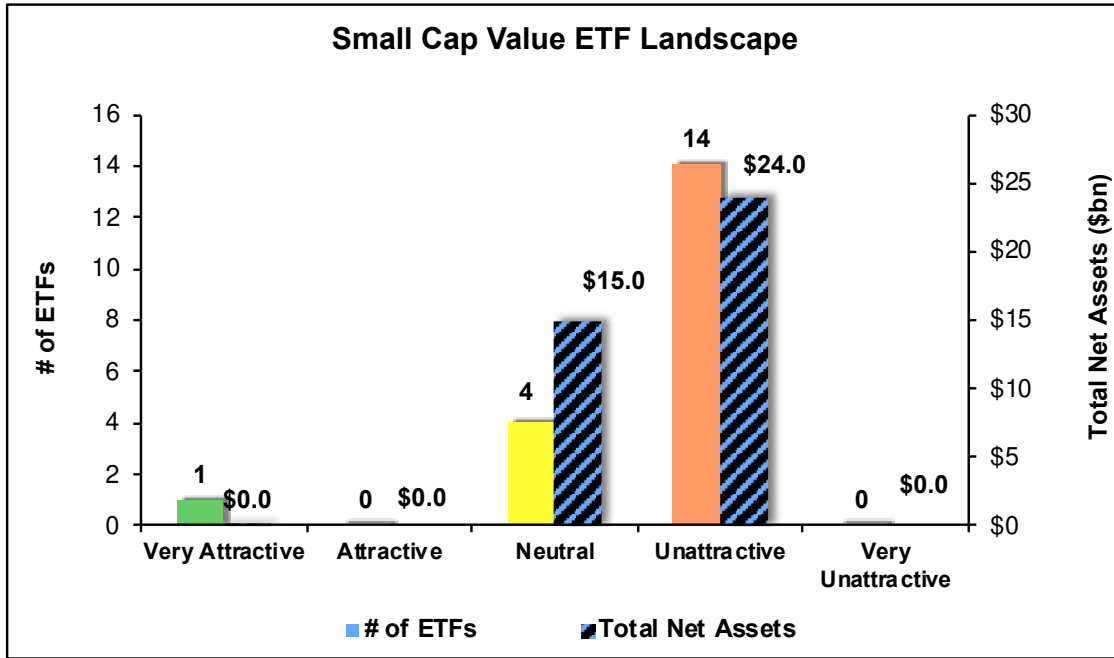
$$\text{PERFORMANCE OF HOLDINGS} = \text{PERFORMANCE OF FUND}$$

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.



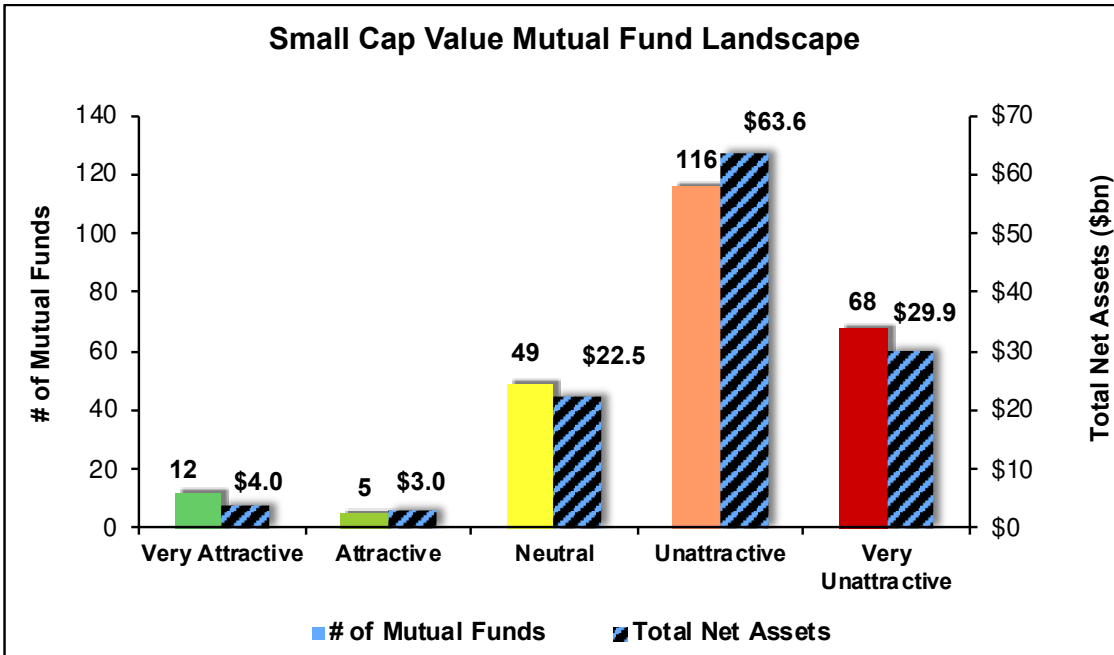
Figures 3 and 4 show the rating landscape of all Small Cap Value ETFs and mutual funds.

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

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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.

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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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