



## 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 911 different Large Cap Value mutual funds and at least 6405 mutual funds across twelve styles. Do investors need 533+ choices on average per style? How different can the mutual funds be?

Those 911 Large Cap Value mutual funds are very different. With anywhere from 17 to 955 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 Value ranks first for stock selection. Small Cap Growth ranks last. Details on the [Best & Worst mutual funds in each style are here.](#)

### How to Avoid 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<sup>1</sup>, is far more difficult than analyzing stocks because it means analyzing all the stocks within each mutual fund. As stated above, that can be as many as 955 stocks, and sometimes even more, for one mutual fund.

Anyone focused on [fulfilling the fiduciary duty of care](#) recognizes that analyzing the holdings<sup>2</sup> 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)
HILGX	Hennessy Cornerstone Large Growth Fund	All Cap Blend	\$151
GTILX	Quantitative US Large Cap Growth Equity Portfolio	All Cap Growth	\$3,986
OFVIX	O'Shaughnessy Market Leaders Value Fund	All Cap Value	\$129
FZADX	Fidelity Advisor Dividend Growth Fund	Large Cap Blend	\$1,014
GINNX	Guinness Atkinson Global Innovators Fund	Large Cap Growth	\$232
LBISX	Brandywine Global Diversified US Large Cap Value	Large Cap Value	\$950
DNLYX	Dreyfus Active Mid Cap Fund	Mid Cap Blend	\$594
MCMFX	AMG Managers Cadence Mid Cap Fund	Mid Cap Growth	\$128
HNMVX	Harbor Mid Cap Value Fund	Mid Cap Value	\$1,096
FSSFY	Fidelity Advisor Series Small Cap Fund	Small Cap Blend	\$481
VQSRX	Virtus KAR Small-Cap Value Fund	Small Cap Growth	\$524
RVVHX	Royce Small-Cap Value Fund	Small Cap Value	\$238

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

Sources: New Constructs, LLC and company filings

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

<sup>2</sup> Harvard Business School features the powerful impact of our research automation technology in the case [New Constructs: Disrupting Fundamental Analysis with Robo-Analysts.](#)



Amongst the mutual funds in Figure 1, Brandywine Global Diversified US Large Cap Value (LBISX) ranks first overall, Hennessy Cornerstone Large Growth Fund (HILGX) ranks second, and Fidelity Advisor Dividend Growth Fund (FZADX) ranks third.

### **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.

Brandywine Global Diversified U.S. Large Cap Value (LBISX) is not only the top-rated Large Cap Value mutual fund, but is also the overall top-ranked style mutual fund out of the 6405 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's clear investors haven't identified these quality mutual funds.

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

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## ***New Constructs® - Research to Fulfill the Fiduciary Duty of Care***

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Ratings & screeners on 3000 stocks, 450 ETFs and 7000 mutual funds help you make prudent investment decisions.

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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