



## 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.

Get the best fundamental research

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 1.73%, which is the average total annual cost of the 6228 U.S. equity Style mutual funds we cover. The weighted average is lower at 1.01%, which highlights how investors tend to put their [money in mutual funds with low fees](#).

Figure 1 shows American Growth Fund Series One (AMRBX) is the most expensive style mutual fund and Fidelity Series Large Cap Growth Index (FHOFX) is the least expensive. American Growth Fund (AMRBX, AMRAX, AMRGX) provides three of the most expensive mutual funds while Fidelity (FHOFX, FFSMX, FSKAX) mutual funds are among the cheapest.

Figure 1: 5 Most and Least Expensive Style Mutual Funds

Ticker	Name	Style	Total Annual Cost
<b>Most Expensive</b>			
AMRBX	American Growth Fund Series One	All Cap Blend	12.04%
AMRAX	American Growth Fund Series One	All Cap Blend	8.76%
PAMVX	Pacific Advisors Mid Cap Value Fund	Mid Cap Blend	8.03%
AMRGX	American Growth Fund Series One	All Cap Blend	7.91%
PAGTX	Pacific Advisors Large Cap Value Fund	Large Cap Blend	7.52%
<b>Least Expensive</b>			
FHOFX	Fidelity Series Large Cap Growth Index	Large Cap Growth	0.01%
VSTSX	Vanguard Total Stock Market Index	All Cap Blend	0.02%
VFFSX	Vanguard 500 Index Fund	Large Cap Blend	0.02%
FFSMX	Fidelity Total Stock Market Index	All Cap Blend	0.02%
FSKAX	Fidelity Total Stock Market Index	All Cap Blend	0.02%

Sources: New Constructs, LLC and company filings



Investors need not pay high fees for quality holdings.<sup>1</sup> 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 an Attractive rating.<sup>2</sup> Hennessy Cornerstone Large Growth Fund (HILGX) is the best ranked style mutual fund overall. HILGX's Attractive Portfolio Management rating and 1.21% total annual cost earns it a Very Attractive rating.

On the other hand, Vanguard Extended Market Index Fund (VSEMX) holds poor stocks and earns our Unattractive rating, yet has low total annual costs of 0.07%. 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
UPAAX	Upright Assets Allocation Plus Fund	All Cap Blend	Very Unattractive
ZVNIX	Zevenbergen Growth Fund	All Cap Growth	Unattractive
LHVIX	Northern Lights Linde Hansen Contrarian Value	All Cap Value	Unattractive
DVALX	MSS Footprints Discover Value	Large Cap Blend	Very Unattractive
OTPIX	ProFunds NASDAQ-100 ProFund	Large Cap Growth	Unattractive
LEXCX	Voya Corporate Leaders Trust Fund	Large Cap Value	Unattractive
NEOMX	Neiman Opportunities Fund	Mid Cap Blend	Unattractive
HNMGX	Harbor Mid Cap Growth Fund	Mid Cap Growth	Very Unattractive
HUMEX	Huber Capital Mid Cap Value Fund	Mid Cap Value	Unattractive
PVFIX	Bertolet Capital Pinnacle Value Fund	Small Cap Blend	Very Unattractive
PUMYX	PACE Small/Medium Growth Equity Investments	Small Cap Growth	Very Unattractive
PVEYX	PACE Small/Medium Value Equity Investments	Small Cap Value	Very Unattractive

Sources: New Constructs, LLC and company filings

UBS Global Asset Management (PUMYX, PVEYX) appears more often than any other provider in Figure 2, which means that they offer the most mutual funds with the worst holdings.

Bertolet Capital Pinnacle Value Fund (PVFIX) is the worst rated mutual fund in Figure 2. MSS Series Footprints Discover Value Fund (DVALX), Voya Corporate Leaders Trust Fund (LEXCX), Upright Assets Allocation Plus Fund (UPAAX), Zevenbergen Growth Fund (ZVNIX), PACE Small/Medium Growth Equity Investments (PUMYX), Huber Capital Mid Cap Value Fund (HUMEX), Neiman Opportunities Fund (NEOMX), and Northern Lights Linde Hansen Contrarian Value Fund (LHVIX) 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 on our [stock ratings](#) of their holdings and the total annual costs of investing in the fund.

### 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 holdings is necessary due diligence because a mutual

<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](#).



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 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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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.

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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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