



## How to Avoid the Worst Style ETFs

Question: Why are there so many ETFs?

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

Get the best fundamental research

The large number of ETFs has little to do with serving your best interests. Only our research utilizes the superior data and earnings adjustments featured by the Harvard Business School and MIT Sloan paper, "[Core Earnings: New Data and Evidence](#)." We leverage this data to identify three red flags you can use to avoid the worst ETFs:

### 1. Inadequate Liquidity

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

### 2. High Fees

ETFs 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 ETFs with [total annual costs](#) below 0.45%, which is the average total annual cost of the 506 U.S. equity Style ETFs we cover. The weighted average is lower at 0.14%, which highlights how investors tend to put their [money in ETFs with low fees](#).

Figure 1 shows Exchange Traded Concepts Forensic Accounting Long-Short (FLAG) is the most expensive style ETF and JPMorgan BetaBuilders U.S. Equity ETF (BBUS) is the least expensive. Exchange Traded Concepts (FLAG) provides one of the most expensive ETFs while State Street (SPLG, SPTM) ETFs are among the cheapest.

**Figure 1: 5 Most and Least Expensive Style ETFs**

Ticker	Name	Style	Total Annual Cost
Most Expensive			
FLAG	Exchange Traded Concepts Forensic Accounting Long-Short	All Cap Blend	1.70%
GARD	Reality Shares DIVCON Dividend Guard ETF	All Cap Blend	1.44%
CCOR	Cambria Core Equity ETF	Large Cap Value	1.37%
HUSE	Strategy Share U.S. Market Rotation Strategy ETF	All Cap Growth	1.34%
GUSH	Direxion Daily S&P Oil & Gas Bull 3x Shares	All Cap Blend	1.30%
Least Expensive			
BBUS	JPMorgan BetaBuilders U.S. Equity ETF	Large Cap Blend	0.02%
SPLG	State Street SPDR Portfolio Large Cap ETF	Large Cap Blend	0.03%
SPTM	State Street SPDR Portfolio Total Stock Market ETF	All Cap Blend	0.03%
VOO	Vanguard 500 Index Fund	Large Cap Blend	0.03%
SCHX	Schwab U.S. Large Cap ETF	Large Cap Blend	0.03%

Sources: New Constructs, LLC and company filings



Investors need not pay high fees for quality holdings.<sup>1</sup> State Street SPDR Portfolio Large Cap ETF (SPLG) is one of the best ranked style ETFs in Figure 1. SPLG's Neutral [Portfolio Management rating](#) and 0.03% total annual cost earns it an Attractive rating.<sup>2</sup> VictoryShares U.S. Multi-Factor Minimum Volatility ETF (VSMV) is the best ranked style ETF overall. VSMV's Attractive Portfolio Management rating and 0.39% total annual cost earns it a Very Attractive rating.

On the other hand, Vanguard Mid Cap Value Index Fund (VOE) holds poor stocks and earns our Unattractive rating, yet has low total annual costs of 0.08%. No matter how cheap an ETF, if it holds bad stocks, its performance will be bad. The quality of an ETF's holdings matters more than its price.

### 3. Poor Holdings

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

**Figure 2: Style ETFs with the Worst Holdings**

Ticker	Name	Style	Portfolio Management Rating
CLIX	ProShares Long Online/Short Stores ETF	All Cap Blend	Unattractive
FPX	First Trust U.S. Equity Opportunities ETF	All Cap Growth	Unattractive
DVOL	First Trust Dorsey Wright Momentum & Low Volatility	All Cap Value	Unattractive
JMOM	JPMorgan U.S. Momentum Factor ETF	Large Cap Blend	Unattractive
VUG	Vanguard Growth Index Fund	Large Cap Growth	Unattractive
XSHD	Invesco S&P High Dividend Low Volatility ETF	Large Cap Value	Unattractive
RYJ	Invesco Raymond James SB-1 Equity ETF	Mid Cap Blend	Unattractive
DWAQ	Invesco DWA NASDAQ Momentum ETF	Mid Cap Growth	Unattractive
VOE	Vanguard Mid Cap Value Index Fund	Mid Cap Value	Unattractive
VTWO	Vanguard Russell 2000 Index Fund	Small Cap Blend	Unattractive
IPO	Renaissance IPO ETF	Small Cap Growth	Unattractive
VTWV	Vanguard Russell 2000 Value Index Fund	Small Cap Value	Unattractive

Sources: New Constructs, LLC and company filings

Vanguard and Invesco appear more often than any other providers in Figure 2, which means that they offer the most ETFs with the worst holdings.

Renaissance IPO ETF (IPO) is the worst rated ETF in Figure 2. Invesco DWA NASDAQ Momentum ETF (DWAQ) also earns 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 ETFs](#) are on our [stock ratings](#) of their holdings and the total annual costs of investing in the ETF.

### The Danger Within

Buying an ETF without analyzing its holdings is like buying a stock without analyzing its business and finances. Put another way, research on ETF holdings is necessary due diligence because an ETF'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 ETFs HOLDINGS = PERFORMANCE OF ETF

<sup>1</sup> This [paper](#) compares our analytics on a mega cap company to other major providers. The Appendix details exactly how we stack up.

<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](#).



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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*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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## ***Footnotes adjustments matter. We are the ONLY source.***

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We provide ratings, models, reports & screeners on U.S. 3,000 stocks, 700 ETFs and 7,000 mutual funds.

**[HBS & MIT Sloan research](#) reveals that:**

- **Markets are inefficiently assessing earnings because no one reads the footnotes.**
- **Our technology brings the material footnotes data to market for the first time ever.**

Combining human expertise with NLP/ML/AI technologies ([featured by Harvard Business School](#)), we shine a light in the dark corners (e.g. footnotes) of hundreds of thousands of financial filings to unearth critical details.

The HBS & MIT Sloan paper, [Core Earnings: New Data and Evidence](#), shows how our superior data drives uniquely comprehensive and independent debt and equity research.

This [paper](#) compares our analytics on a mega cap company to other major providers. The Appendix details exactly how we stack up.

Quotes from HBS & MIT Sloan professors on our research:

### ***Get better research:***

*“...the NC dataset provides a novel opportunity to study the properties of non-operating items disclosed in 10-Ks, and to examine the extent to which the market impounds their implications.” – page 19*

### ***Pick better stocks:***

*“Trading strategies that exploit cross-sectional differences in firms’ transitory earnings produce abnormal returns of 7-to-10% per year.” – Abstract*

### ***Avoid losses from using other firms’ data:***

*“...many of the income-statement-relevant quantitative disclosures collected by NC do not appear to be easily identifiable in Compustat...” – page 13*

### ***Build better models:***

*“Core Earnings [calculated using New Constructs’ novel dataset] provides predictive power for various measures of one-year-ahead performance...that is incremental to their current-period counterparts.” – page 3-4*

### ***Exploit market inefficiencies:***

*“These results suggest that the adjustments made by analysts to better capture core earnings are incomplete, and that the non-core items identified by NC produce a measure of core earnings that is incremental to alternative measures of operating performance in predicting an array of future income measures.” – page 26*

### ***Fulfill fiduciary duties:***

*“An appropriate measure of accounting performance for purposes of forecasting future performance requires detailed analysis of all quantitative performance disclosures detailed in the annual report, including those reported only in the footnotes and in the MD&A.” – page 31*



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