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 820 different Large Cap Value mutual funds and at least 6313 mutual funds across twelve styles. Do investors need 526+ choices on average per style? How different can the mutual funds be?

Those 820 Large Cap Value mutual funds are very different. With anywhere from 22 to 803 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. All 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[1], 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 803 stocks, and sometimes even more, for one mutual fund.

Anyone focused on fulfilling the fiduciary duty of care recognizes that analyzing the holdings[2] of a mutual fund is critical to finding the best mutual fund. 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." Figure 1 shows our top rated mutual fund for each style.

[1] This paper compares our analytics on a mega cap company to Bloomberg and Capital IQ (SPGI) in a detailed appendix.

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

Figure 1: The Best Mutual Fund in Each Style

Ticker	Name	Investment Style	Assets ($mm)
HILGX	Hennessy Cornerstone Large Growth Fund	All Cap Blend	$139
NLAFX	Nuveen Large Cap Growth Fund	All Cap Growth	$281
DCURX	Deutsche DWS CROCI U.S. Fund	All Cap Value	$878
VPMAX	Vanguard Primecap Fund	Large Cap Blend	$69,116
FUQIX	Fidelity SAI U.S. Quality Index Fund	Large Cap Growth	$9,911
LBISX	Legg Mason Brandywine Global Diversified Large Cap Value Fund	Large Cap Value	$604
VEVRX	Victory Sycamore Established Value Fund	Mid Cap Blend	$12,222
VSCRX	Virtus KAR Small Cap Core Fund	Mid Cap Growth	$1,605
FIDFX	Fidelity Advisor Mid Cap Value Fund	Mid Cap Value	$1,710
RVVHX	Royce Small Cap Value Fund	Small Cap Blend	$172
DSCGX	DFA Investments U.S. Small Cap Growth Portfolio	Small Cap Growth	$649
GCAVX	GMO U.S. Small Cap Value Fund	Small Cap Value	$461

* Best mutual funds exclude funds with TNAs less than $100 million for inadequate liquidity
Sources: New Constructs, LLC and company filings

Amongst the mutual funds in Figure 1, Fidelity Advisor Mid Cap Value Fund (FIDFX) ranks first overall, Deutsche DWS CROCI U.S. Fund (DCURX) ranks second, and Hennessy Cornerstone Large Growth Fund (HILGX) ranks third. DFA Investments U.S. Small Cap Growth Portfolio (DSCGX) ranks last.

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.

Fidelity Advisor Mid Cap Value Fund (FIDFX) is not only the top-rated Mid Cap Value mutual fund, but is also the overall top-ranked style mutual fund out of the 6313 style mutual funds that we cover.

The worst mutual fund in Figure 1 is DFA Investments U.S. Small Cap Growth Portfolio (DSCGX), which gets a Neutral rating. One would think mutual fund providers could do better for this style.

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

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Footnotes adjustments matter. We are the ONLY source.

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.**
- **Corporate managers hide gains/losses in footnotes to manage earnings.**
- **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.

Learn more.

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 20

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 14

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 4

Exploit market inefficiencies:

"These results … suggest that the adjustments made by analysts and Compustat to better capture core earnings are incomplete. Moreover, 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 33-34

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