ETF & Mutual Fund Rankings: Large Cap Value Style

The Large Cap Value style ranks first out of the twelve fund styles as detailed in our 2Q20 Style Ratings for ETFs and Mutual Funds report. Last quarter, the Large Cap Value style ranked second. It gets our Very Attractive rating, which is based on an aggregation of ratings of 69 ETFs and 834 mutual funds in the Large Cap Value style as of April 21, 2020. See a recap of our 1Q20 Style Ratings here.

Figures 1 and 2 show the best and worst rated ETFs and mutual funds in the style. Not all Large Cap Value style ETFs and mutual funds are created the same. The number of holdings varies widely (from 14 to 804). This variation creates drastically different investment implications and, therefore, ratings.

Investors seeking exposure to the Large Cap Value style should buy one of the Very Attractive rated ETFs or mutual funds from Figures 1 and 2.

Our Robo-Analyst technology[1] empowers our unique ETF and mutual fund rating methodology, which leverages our rigorous analysis of each fund's holdings.[2] Only our research utilizes the superior data and earnings adjustments featured by the HBS & MIT Sloan paper, "Core Earnings: New Data and Evidence." 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

	Allocation of ETF Holdings			
Ticker	**Attractive-or-better Stocks**	**Neutral Stocks**	**Unattractive-or-worse Stocks**	**Predictive Rating**
Best ETFs				
SCHD	59%	41%	0%	**Very Attractive**
FDVV	51%	32%	8%	**Very Attractive**
QDF	58%	36%	5%	**Very Attractive**
QDEF	58%	35%	7%	**Very Attractive**
OUSA	62%	31%	6%	**Very Attractive**
Worst ETFs (only 4)				
OUSM	39%	43%	14%	**Neutral**
SPYD	31%	51%	17%	**Neutral**
DIV	39%	27%	17%	**Neutral**
RFDA	41%	42%	16%	**Neutral**

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

Sources: New Constructs, LLC and company filings

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

2 This paper compares our analytics on a mega cap company to other major providers. The Appendix details exactly how we stack up.

Listed Funds Source Dividend Opportunity ETF (DVOP), Cambria Shareholder Yield ETF (SYLD), and iShares Factors U.S. Value Style ETF (STLV) are excluded from Figure 1 because their total net assets (TNA) are below $100 million and do not meet our liquidity minimums.

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

Ticker	Allocation of Mutual Fund Holdings: Attractive-or-better Stocks	Neutral Stocks	Unattractive-or-worse Stocks	Predictive Rating
Best Mutual Funds				
STRAX	66%	26%	4%	Very Attractive
LMBGX	67%	27%	3%	Very Attractive
BBISX	66%	26%	4%	Very Attractive
LMBEX	67%	27%	3%	Very Attractive
LMBHX	67%	27%	3%	Very Attractive
Worst Mutual Funds				
DMCCX	33%	42%	20%	Very Unattractive
DMCAX	33%	42%	20%	Very Unattractive
OIPCX	14%	21%	42%	Very Unattractive
CGGAX	41%	34%	19%	Very Unattractive
OIPAX	14%	21%	42%	Very Unattractive

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

Sources: New Constructs, LLC and company filings

Stock Dividend Fund, Inc. (SDIVX) is excluded from Figure 2 because its total net assets (TNA) are below $100 million and do not meet our liquidity minimums.

Schwab U.S. Dividend Equity ETF (SCHD) is the top-rated Large Cap Value ETF and Sterling Capital Behavioral Large Cap Value Equity Fund (STRAX) is the top-rated Large Cap Value mutual fund. Both earn a Very Attractive.

RiverFront Dynamic U.S. Dividend Advantage ETF (RFDA)) is the worst rated Large Cap Value ETF and Mutual Fund Series Catalyst Enhanced Core Fund (OIPAX) is the worst rated Large Cap Value mutual fund. RFDA earns a Neutral rating and OIPAX earns a Very Unattractive rating.

The Danger Within

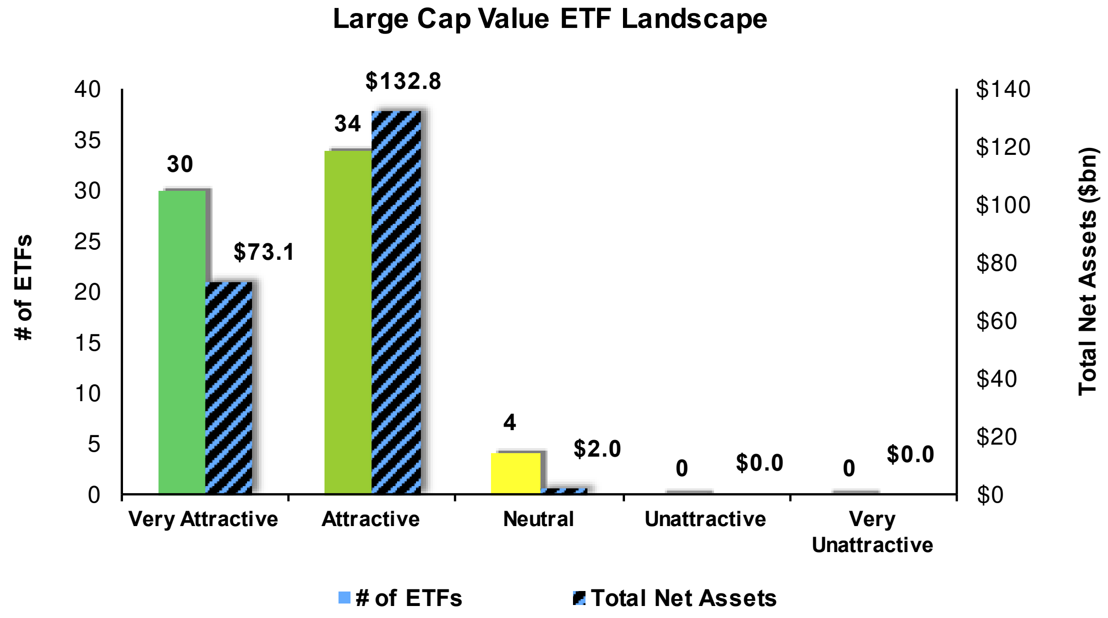
Buying a fund without analyzing its holdings is like buying a stock without analyzing its business and finances. Put another way, research on fund holdings is necessary due diligence because a fund's performance is only as good as its holdings' performance. Don't just take our word for it, see what Barron's says on this matter.

PERFORMANCE OF 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.

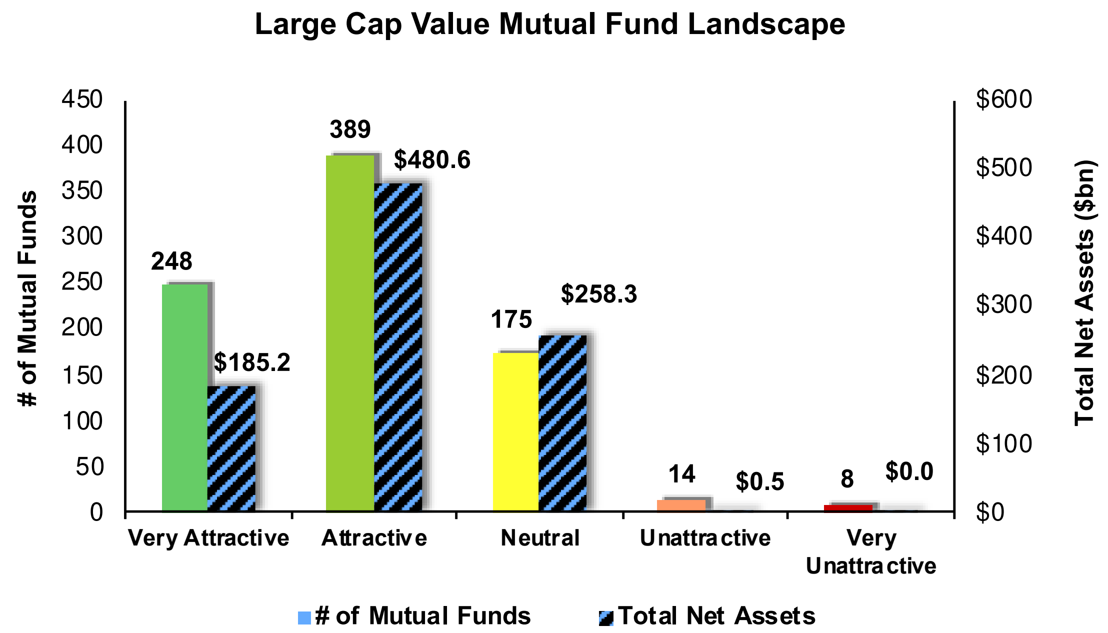
Figures 3 and 4 show the rating landscape of all Large Cap Value ETFs and mutual funds.

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

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

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