



## 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?

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### Don't Trust Mutual Fund Labels

There are at least 763 different Small Cap Blend mutual funds and at least 6,164 mutual funds across twelve styles. Do investors need 513+ choices on average per style? How different can the mutual funds be?

Those 763 Small Cap Blend mutual funds are very different. With anywhere from 25 to 2,560 holdings, many of these Small Cap Blend 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 Small Cap Blend (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 2,560 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. 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.

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<sup>1</sup> Compare our analytics on a mega cap company to Bloomberg and Capital IQ's (SPGI) analytics in the [detailed appendix of this paper](#).

<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](#).

**Figure 1: The Best Mutual Fund in Each Style**

Ticker	Name	Investment Style	Assets (\$mm)
LOGIX	Advisors Series Scharf Fund	All Cap Blend	\$349
AMIGX	Amana Mutual Funds Growth Fund	All Cap Growth	\$2,486
FBCVX	Fidelity Blue Chip Value Fund	All Cap Value	\$377
DNVYX	Davis New York Venture Fund	Large Cap Blend	\$7,367
FUQIX	Fidelity SAI U.S. Quality Index Fund	Large Cap Growth	\$8,301
SLESX	Invesco Low Volatility Equity Yield Fund	Large Cap Value	\$183
FEFRX	First Eagle Fund of America	Mid Cap Blend	\$581
VSCRX	Virtus KAR Small Cap Core Fund	Mid Cap Growth	\$1,578
FIDFX	Fidelity Advisor Mid Cap Value Fund	Mid Cap Value	\$1,098
RVVHX	Royce Small Cap Fund	Small Cap Blend	\$102
GWGZX	AMG GW&K Small/Mid Cap Fund	Small Cap Growth	\$219
DASCX	Dean Small Cap Value Fund	Small Cap Value	\$119

\* 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 Blue Chip Value fund (FBCVX) ranks first overall, Invesco Low Volatility Equity Yield Fund (SLESX) ranks second, and Advisors Series Scharf Fund (LOGIX) ranks third. AMG GW&K Small/Mid Cap Fund (GWGZX) 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 Blue Chip Value Fund (FBCVX) is not only the top-rated All Cap Value mutual fund but is also the overall top-ranked style mutual fund out of the 6,164 style mutual funds that we cover.

All the mutual funds in Figure 1 earn an Attractive-or-better rating. However, with so many Neutral-or-worse rated funds under coverage, one would think mutual fund providers could do better.

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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.***

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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.**
- **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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