ETF & Mutual Fund Rankings: Small Cap Growth Style

The Small Cap Growth style ranks last out of the twelve fund styles as detailed in our 1Q21 Style Ratings for ETFs and Mutual Funds report. Last quarter, the Small Cap Growth style ranked last as well. It gets our Very Unattractive rating, which is based on an aggregation of ratings of 21 ETFs and 509 mutual funds in the Small Cap Growth style as of January 20, 2021. See a recap of our 4Q20 Style Ratings here.

Figures 1 and 2 show the five best and worst rated ETFs and mutual funds in the style. Not all Small Cap Growth style ETFs and mutual funds are created the same. The number of holdings varies widely (from 28 to 3,251). This variation creates drastically different investment implications and, therefore, ratings.

Investors should not buy any Small Cap Growth ETFs or mutual funds because none get an Attractive-or-better rating. If you must have exposure to this style, you should buy a basket of Attractive-or-better rated stocks and avoid paying undeserved fund fees. Active management has a long history of not paying off.

The best fundamental data in the world, proven in The Journal of Financial Economics, drives our research. 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] 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 – Top 5

	Allocation of ETF Holdings			
Ticker	**Attractive-or-better Stocks**	**Neutral Stocks**	**Unattractive-or-worse Stocks**	**Predictive Rating**
Best ETFs				
RZG	20%	22%	39%	**Neutral**
JSMD	15%	34%	38%	**Neutral**
XSMO	24%	25%	43%	**Neutral**
IVOG	17%	33%	46%	**Neutral**
VIOG	15%	28%	50%	**Neutral**
Worst ETFs				
VTWG	10%	17%	51%	**Unattractive**
IWO	10%	16%	51%	**Unattractive**
JKK	4%	16%	66%	**Unattractive**
FNY	8%	25%	60%	**Very Unattractive**
MFMS	10%	7%	71%	**Very Unattractive**

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

Sources: New Constructs, LLC and company filings

Fidelity Small-Mid Factor ETF (FSMD) and Janus Henderson Small Cap Growth Alpha ETF (JSML) are excluded from Figure 1 because their total net assets (TNA) are below $100 million and do not meet our liquidity minimums.

[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] See how our models and financial ratios are superior to Bloomberg and Capital IQ's (SPGI) analytics in the detailed appendix of this paper.

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

	Allocation of Mutual Fund Holdings			
Ticker	**Attractive-or-better Stocks**	**Neutral Stocks**	**Unattractive-or-worse Stocks**	**Predictive Rating**
Best Mutual Funds				
FSSFX	27%	27%	29%	**Neutral**
NRGSX	10%	41%	40%	**Neutral**
FZAOX	28%	27%	30%	**Neutral**
NBGIX	10%	41%	40%	**Neutral**
FSCIX	28%	27%	30%	**Neutral**
Worst Mutual Funds				
DSGDX	4%	11%	63%	**Very Unattractive**
CGOAX	4%	13%	54%	**Very Unattractive**
NSNAX	7%	13%	56%	**Very Unattractive**
EMCAX	17%	28%	39%	**Very Unattractive**
DADGX	10%	11%	58%	**Very Unattractive**

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

Sources: New Constructs, LLC and company filings

American Beacon Bahl & Gaynor Small Cap Growth Fund (GBSIX, GBSYX, GBSPX, GBSCX) is excluded from Figure 2 because its total net assets (TNA) are below $100 million and do not meet our liquidity minimums.

Invesco S&P Small Cap 600 Pure Growth ETF (RZG) is the top-rated Small Cap Growth ETF and Fidelity Advisor Series Small Cap Fund (FSSFX) is the top-rated Small Cap Growth mutual fund. Both earn a Neutral rating.

RBB MFAM Small Cap Growth ETF (MFMS) is the worst rated Small Cap Growth ETF and Dunham Small Cap Growth Fund (DADGX) is the worst rated Small Cap Growth mutual fund. Both earn a Very Unattractive rating.

The Danger Within

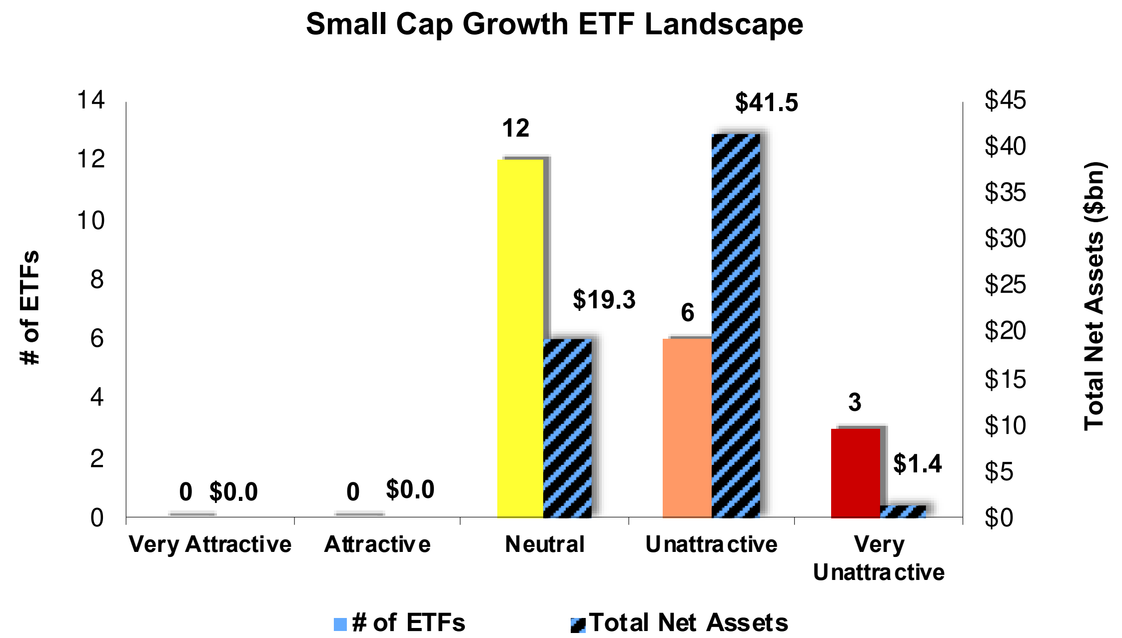
Buying a fund without analyzing its holdings is like buying a stock without analyzing its business and finances. Put another way, research on fund holdings is necessary due diligence because a fund's performance is only as good as its holdings' performance. Don't just take our word for it, see what Barron's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

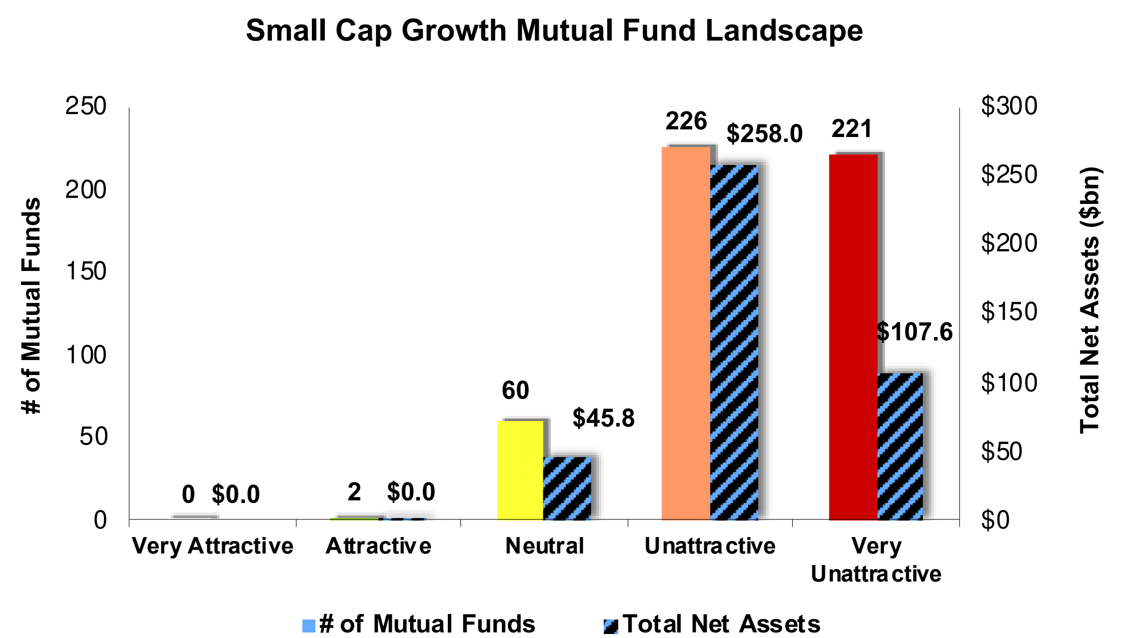
Figures 3 and 4 show the rating landscape of all Small Cap Growth ETFs and mutual funds.

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, Alex Sword, and Matt Shuler receive no compensation to write about any specific stock, style, or theme.

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It's Official: We Offer the Best Fundamental Data in the World

Many firms claim their research is superior, but none of them can prove it with independent studies from highly-respected institutions as we can. Below, we present three different papers from both the public and private sectors that prove the superiority of our proprietary fundamental data, earnings models, investment ratings, and research for stocks, bonds, ETFs, and mutual funds.

Best Fundamental Data in the World

Forthcoming in The Journal of Financial Economics, a top peer-reviewed journal, Core Earnings: New Data & Evidence proves the superiority of our fundamental data, earnings models, and research. More details.

Key quotes from the paper:

- "[New Constructs'] *Total Adjustments* differs significantly from the items identified and excluded from Compustat's adjusted earnings measures. For example… 50% to 70% of the variation in *Total Adjustments* is not explained by *IBSPI Adjustments*, *OIADP Adjustments*, or *OPE Adjustments* individually." – pp. 14, 1st para.
- "A final source of differences [between New Constructs' and S&P Global's data] is due to data collection oversights…we identified cases where Compustat did not collect information relating to firms' income that is useful in assessing core earnings." – pp. 16, 2nd para.

Superior Models

A top accounting firm features the superiority of our NOPAT, Invested Capital, and ROIC research on four mega-cap companies in "Getting ROIC right: how an accurate view of ROIC can drive improved shareholder value".

Key quotes from the paper:

- "…an accurate calculation of ROIC requires more diligence than often occurs in some of the common, off-the-shelf ROIC calculations. Only by scouring the footnotes and the MD&A [the New Constructs method] can investors get an accurate calculation of ROIC." – pp. 8, 5th para.
- "The majority of the difference…comes from New Constructs' machine learning approach, which leverages technology to calculate ROIC by applying accounting adjustments that may be buried deeply in the footnotes across thousands of companies." – pp. 4, 2nd para.

See the Appendix for direct comparison of our analysis of DOW's 2015 results to Capital IQ and Bloomberg.

Superior Stock Ratings

Robo-Analysts' stock ratings outperform those from human analysts as shown in this paper from Indiana's Kelley School of Business. Bloomberg features the paper here.

Key quotes from the paper:

- "the portfolios formed following the buy recommendations of Robo-Analysts earn abnormal returns that are statistically and economically significant." – pp. 6, 3rd para.
- "Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts." – pp. 20, 3rd para.

Our mission is to provide the best fundamental analysis of public and private businesses in the world and make it affordable for all investors, not just Wall Street insiders.

We believe every investor deserves to know the whole truth about the profitability and valuation of any company they consider for investment. More details on our cutting-edge technology and how we use it are here.

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