



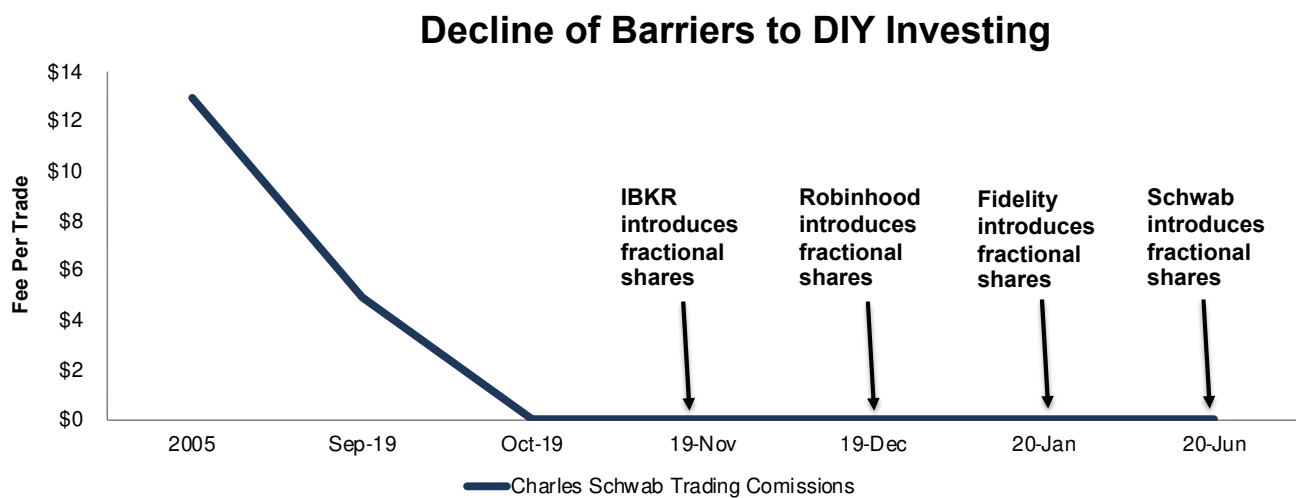
The Paradigm Shift to DIY ETFs

Online trading removed the need for middlemen brokers and made do-it-yourself (DIY) investing in stocks and funds possible. Add in the ability to trade for free and buy fractional shares and now DIY ETFs are possible. Investors are no longer dependent on mutual fund managers or ETF providers to construct portfolios for them.

Figure 1 shows how quickly trading commissions declined from ~\$13/trade in 2005 to \$0 today, a trend led by Charles Schwab and followed by nearly every other DIY trading platform.

Even with \$0 cost trades, DIY investors could not get exposure to large numbers of stocks unless they bought ETFs or mutual funds. The requirement to purchase shares in round lots (as high as 100 shares until recently) prevented DIY investors from being able to build and manage portfolios. Almost no one but institutions are investing enough money to be able to buy round lots of shares given that one round lot could be more than many investors' entire savings. For example, one round lot of shares in Apple (AAPL) on 6/23/22 equals nearly \$14,000. For many DIY investors, their entire savings might be just \$14,000. Figure 1 also shows how recently the major brokerages gave investors the ability to buy fractional shares.

Figure 1: It's Never Been Easier to Do It Yourself



Sources: New Constructs, LLC and [Bloomberg](#)

Removing trading costs and allowing the purchase of fractional shares means investors are now free to create their own ETF with almost any amount of money.

[Learn more about the best fundamental research](#)

Why Pay for Something You Can Do for Free

Given that the holdings and weightings of most funds are regularly, if not daily, disclosed to the public, investors have all the information needed to create their own version of these ETFs with zero management fees.

For example, investors can download all the holdings and positions sizes for Invesco QQQ [here](#). With that data, investors only need a few seconds to upload that data into our system and produce an order form for their broker to recreate the QQQ in their account without paying any management fees.

In fact, our [DIY ETF](#) technology enables all investors to create their own ETF based on any list of stocks.



Figure 2: DIY Fund Tool

Ticker	Name	Type	Sector / Style	Mkt Val / AUM ¹	Div Yield	Risk/Reward Rating ▲	ROIC	FCF Yield	Price to EBV	GAP	Analyst Notes ²	Earnings Distortion Score ³
SYF	Synchrony Financial	Stock	Financials	\$23,299	2.2%	Very Attractive	28%	18%	0.3	< 1	Jan 05, 2021	In-Line
ALL	Allstate Corp (The)	Stock	Financials	\$33,752	1.9%	Very Attractive	22%	12%	0.3	< 1	Jan 05, 2021	In-Line
BBV	Best Buy Co. Inc	Stock	Consumer	\$30,061	2.0%	Very Attractive	21%	11%	0.3	< 1	Jan 05, 2021	In-Line

Sources: New Constructs, LLC

Goodbye Fund Fees, Hello Better Asset Allocation

It is just as easy to re-balance an existing portfolio by uploading it and updating the allocations or amount of money you want to invest in the portfolio. There's no reason for investors with access to our DIY ETF technology to pay anyone to manage a portfolio of stocks for them. Add the facts that [most mutual funds underperform](#) and ETFs are passive, and it's hard to make a straight-faced argument for investors to pay any management fees.

Figure 3: DIY ETF without any Management Fees

Create Your Own Fund: SampleFundUpload.csv

Tell us (1) how much money you want to put into your fund and (2) how to weight the holdings and we'll create an order form for you.

Investment: \$ 10000

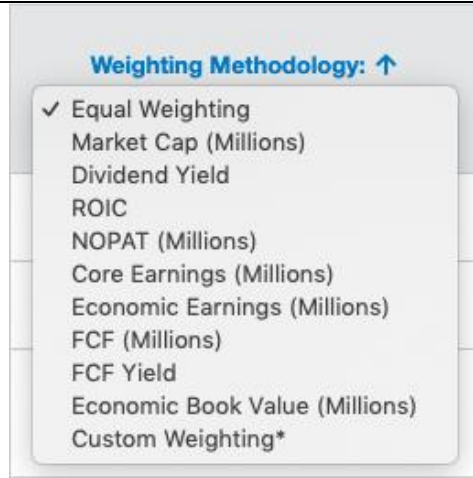
Ticker	Name	Type	Sector/Style	Price	Risk/Reward Rating	Weighting Methodology: ↓	Exclude	Weight	Target Position Value	Target Shares	Current Shares	Order Shares
ZEN	Zendesk, Inc.	Stock	Technology	\$150.81	Unattractive	Equal Weighting	<input type="checkbox"/>	3.13%	\$312.50	2.0721	0	2.0721
WDAY	Workday Inc.	Stock	Technology	\$235.53	Unattractive	Market Cap (Millions)	<input type="checkbox"/>	3.13%	\$312.50	1.3268	0	1.3268
VEEV	Veeva Systems Inc	Stock	Healthcare	\$288.69	Unattractive	Dividend Yield	<input type="checkbox"/>	3.13%	\$312.50	1.0825	0	1.0825
V	Visa Inc.	Stock	Technology	\$202.02	Neutral	ROIC	<input type="checkbox"/>	3.13%	\$312.50	1.5469	0	1.5469
TSCO	Tractor Supply Company	Stock	Consumer Cyclical	\$155.62	Very Attractive	NOPAT (Millions)	<input type="checkbox"/>	3.13%	\$312.50	2.0081	0	2.0081

Sources: New Constructs, LLC

Once their holdings are in our system, investors can employ more sophisticated weighting methodologies than available from legacy ETF and mutual fund providers. For example, our clients can weight holdings based on [proven-superior](#) fundamental metrics: return on invested capital (ROIC), free cash flow (FCF), [Core Earnings](#), etc. See Figure 4 for a list of our unique weighting methodologies. Clients can also [screen](#), rank and select stocks based on these metrics. Our DIY ETF technology is unrivalled.



Figure 4: Weight Your Portfolio Using Better Metrics



Sources: New Constructs, LLC

While certainly not the first to enable investing in portfolios weighted based on fundamentals, ([Research Affiliates](#) has been selling non cap-weighted strategies since 2004), our DIY technology puts the power to do so in investors' hands.

Case Study 1: DIY with Better Weighting Methodologies

Below we provide an example of how to create a custom ETF based on an existing fund's holdings while also optimizing that fund by allocating more capital to higher-quality stocks.

In this example, we're looking at the State Street SPDR S&P 500 ETF (SPY), a common proxy for "the market". Based on this ETF's market-cap-weighting methodology, it allocates:

- 26% of assets to Attractive-or-better rated stocks
- 25% of assets to Unattractive-or-worse rated stocks.

If, instead of weighting by market cap, we weight by ROIC, a key [driver of shareholder value](#), our DIY ETF allocates:

- 32% of assets to Attractive-or-better rated stocks
- 12% of assets to Unattractive-or-worse rated stocks.

Figure 5 compares the quality of stock allocations for our chosen weighting methodology, ROIC, and the chosen benchmark. We enable clients to compare their DIY ETFs to 23 different benchmarks.

Figure 5: DIY ETF Weighting vs. Benchmark Weights



Sources: New Constructs, LLC



Case Study 2: Stop Buying Stocks Just Based on Size

With our DIY ETF technology, investors can get exposure to the same bundle of stocks in any ETF or mutual fund, and they can do so with greater exposure/allocation to the best stocks of the bunch based on sophisticated fundamental research previously available only to Wall Street insiders.

For example, State Street Health Care Select Sector SPDR Fund (XLV), which, with over \$25 billion in assets under management, is the largest Healthcare ETF in our coverage universe. As we'll show, it's possible to gain exposure to all the stocks in this fund, but with significantly greater allocation to the highest quality stocks.

Based on its traditional market-cap weighting, XLV allocates:

- 43% of assets to Attractive-or-better rated stocks
- 23% of assets to Unattractive-or-worse rated stocks.

If, instead of weighting by market cap, we weight by Core Earnings, our DIY ETF allocates:

- 64% of assets to Attractive-or-better rated stocks
- 9% of assets to Unattractive-or-worse rated stocks.

Figure 6 shows the comparison between the two weighting methodologies.

Figure 6: Weighting XLV by Core Earnings Provides Higher-Quality Asset Allocation



Sources: New Constructs, LLC

If we weight by [economic earnings](#), our DIY ETF allocates:

- 75% of assets to Attractive-or-better rated stocks
- 3% of assets to Unattractive-or-worse rated stocks.

Figure 7 shows the difference in ratings allocation between weighting XLV's holdings by economic earnings versus weighting its holdings by the standard methodology.

Figure 7: Weighting XLV by Economic Earnings vs. Market-Cap Weighted



Sources: New Constructs, LLC



Cost Savings Can Be In the Thousands of Dollars, Too

Below we provide an example of how large the cost savings can be for investors who build DIY ETFs instead of investing in Dunham Focused Large Cap Growth Fund (DAFGX).

Dunham Focused Large Cap Fund is one of the most expensive Large Cap funds [under coverage](#) with [total annual costs](#) of 4.03% compared to just 0.21% for the style benchmark, iShares Russell 1000 Growth ETF (IWF).

DAFGX's holdings earn an ROIC greater than the stocks in the S&P 500. Given the strong ROIC of its holdings, it's reasonable that an investor may want to recreate this portfolio but do so without the excessive total annual costs.

If we assume a 10-year holding period, a \$10,000 initial investment, and a 10% annual return for the fund, the accumulated total costs of owning DAFGX are:

- \$1,351 over 3 years
- \$5,091 over 10 years

In other words, using our DIY ETF technology to recreate DAFGX with no fees could save upwards of \$5,000 in fees over 10 years.

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Disclosure: David Trainer, Kyle Guske II, and Matt Shuler receive no compensation to write about any specific stock, sector, 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. Three different papers from both the public and private sectors show:

1. Legacy fundamental datasets suffer from significant inaccuracies, omissions and biases.
2. Only our “novel database” enables investors to overcome these flaws and apply [reliable](#) fundamental data in their research.
3. Our proprietary measures of [Core Earnings](#) and [Earnings Distortion](#) materially improve stock picking and forecasting of profits.

Best Fundamental Data in the World

Forthcoming in [The Journal of Financial Economics](#), a top peer-reviewed journal, [Core Earnings: New Data & Evidence](#) proves our Robo-Analyst technology overcomes material shortcomings in legacy firms’ data collection processes to provide superior [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 S&P Global’s (SPGI) *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 ROIC, NOPAT and Invested Capital research to Capital IQ & Bloomberg’s in [Getting ROIC Right](#). See the [Appendix](#) for direct comparison details.

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 [as New Constructs does] 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.

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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