



## How to Find the Best Style Mutual Funds

With an ever-growing list of similar-sounding mutual funds to choose from, finding the best is an increasingly difficult task. How can investors change the game to shift the odds in their favor?

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### Don't Trust Mutual Fund Labels

There are at least 908 different All Cap Value mutual funds and at least 5,769 mutual funds across twelve styles. Do investors need 480+ choices on average per style? How different can the mutual funds be?

Those 908 All Cap Value mutual funds are very different. With anywhere from 17 to 3,070 holdings, many of these All Cap Value mutual funds have drastically different portfolios with differing risk profiles and performance outlooks.

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 [here](#).

### Avoiding Analysis Paralysis

We think the large number of style mutual funds hurts investors more than it helps. Deep analysis on a mutual fund-by-mutual fund basis is simply not a realistic option so investors are exposed to insufficient analysis, missing profitable opportunities, or both. Analyzing mutual funds, 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, there can be as many as 3,064 stocks or 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. More [reliable](#) & [proprietary](#) fundamental data, proven in [The Journal of Financial Economics](#), drives our research and analysis of fund holdings and provides investors with a [new source of alpha](#). Figure 1 shows our top rated mutual fund for each style.

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

| Ticker | Name                                     | Investment Style | Assets (\$mm) |
|--------|--|------------------|---------------|
| LDIFX  | Legg Mason Franklin Global Dividend Fund | All Cap Blend    | \$197         |
| FICIX  | Delaware Growth Equity Fund              | All Cap Growth   | \$608         |
| KDHTX  | Deutsche DWS CROCI Equity Dividend Fund  | All Cap Value    | \$1,006       |
| GFCIX  | Guggenheim Capital Stewardship Fund      | Large Cap Blend  | \$243         |
| FUQIX  | Fidelity SAI U.S. Quality Index Fund     | Large Cap Growth | \$11,275      |
| HICVX  | Hennessy Cornerstone Value Fund          | Large Cap Value  | \$269         |
| JNVYX  | Jensen Quality Value Fund                | Mid Cap Blend    | \$194         |
| VKSIX  | Virtus KAR Small Mid Cap Core Fund       | Mid Cap Growth   | \$1,459       |
| GOODX  | GoodHaven Fund                           | Mid Cap Value    | \$451         |
| RVVHX  | Royce Small Cap Value Fund               | Small Cap Blend  | \$140         |
| VSCRX  | Virtus KAR Small Cap Core Fund           | Small Cap Growth | \$1,976       |
| RSEIX  | Royce Special Equity Fund                | Small Cap Value  | \$1,075       |

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

Sources: New Constructs, LLC and company filings

<sup>1</sup> Three independent studies from respected institutions prove the superiority of our data, models, and ratings. Learn more [here](#).

<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](#).



Amongst the mutual funds in Figure 1, Deutsche DWS CROCI Equity Dividend Fund (KDHTX) ranks first overall, Legg Mason Franklin Global Dividend Fund (LDIFX) ranks second, and Hennessy Cornerstone Value Fund (HICVX) ranks third. Virtus KAR Small Mid Cap Core Fund (VKSIX) 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 FUNDS 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.

Deutsche DWS CROCI Equity Dividend Fund (KDHTX) is not only the top-rated All Cap Value mutual fund, but is also the overall top ranked style mutual fund out of the 5,769 style mutual funds that we cover.

The worst mutual fund in Figure 1 is Virtus KAR Small Mid Cap Core Fund (VKSIX), which still gets an Attractive rating.

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

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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, 1<sup>st</sup> 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, 2<sup>nd</sup> 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, 5<sup>th</sup> 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, 2<sup>nd</sup> 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, 3<sup>rd</sup> para.
- “Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts.” – pp. 20, 3<sup>rd</sup> 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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