



## How to Avoid the Worst Style Mutual Funds

Question: Why are there so many mutual funds?

Answer: Mutual fund providers tend to make lots of money on each fund, so they create more products to sell.

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The large number of mutual funds has little to do with serving your best interests. 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](#). We leverage this data to identify three red flags you can use to avoid the worst mutual funds:

### 1. Inadequate Liquidity

This issue is the easiest issue to avoid, and our advice is simple. Avoid all mutual funds with less than \$100 million in assets. Low levels of liquidity can lead to a discrepancy between the price of the mutual fund and the underlying value of the securities it holds.

### 2. High Fees

Mutual funds should be cheap, but not all of them are. The first step here is to know what is cheap and expensive.

To ensure you are paying at or below average fees, invest only in mutual funds with [total annual costs](#) below 1.64% which is the average total annual cost of the 5,769 U.S. equity Style mutual funds we cover. The weighted average is lower at 0.93%, which highlights how investors tend to put their [money in mutual funds with low fees](#).

Figure 1 shows American Growth Fund Series One (AMRBX) is the most expensive style mutual fund and Vanguard 500 Index Fund (VFFSX) is the least expensive. American Growth (AMRBX, AMRAX, AMRGX) provides three of the most expensive mutual funds while Vanguard (VFFSX, VSTSX) mutual funds are among the cheapest.

**Figure 1: 5 Most and Least Expensive Style Mutual Funds**

Ticker	Name	Style	Total Annual Cost
<b>Most Expensive</b>			
AMRBX	American Growth Fund Series One	All Cap Blend	9.58%
AMRAX	American Growth Fund Series One	All Cap Blend	7.39%
AMRGX	American Growth Fund Series One	All Cap Blend	6.96%
LIONX	Northern Lights Issachar Fund	All Cap Blend	6.89%
ABRFX	AmericaFirst Monthly Risk-On Risk-Off Fund	All Cap Blend	6.81%
<b>Least Expensive</b>			
VFFSX	Vanguard 500 Index Fund	Large Cap Blend	0.02%
BSPGX	BlackRock iShares S&P 500 Index Fund	Large Cap Blend	0.02%
VSTSX	Vanguard Total Stock Market Index Fund	All Cap Blend	0.03%
SWPPX	Schwab S&P 500 Index Fund	Large Cap Blend	0.03%
FSKAX	Fidelity total Market Index Fund	All Cap Blend	0.03%

Sources: New Constructs, LLC and company filings



Investors need not pay high fees for quality holdings.<sup>1</sup> BlackRock Funds iShares S&P 500 Index Fund (BSPGX) is the best ranked style mutual fund in Figure 1. BSPGX's Neutral [Portfolio Management rating](#) and 0.02% total annual cost earn it an Attractive rating.<sup>2</sup> Royce Small Cap Value Fund (RVVHX) is the best ranked style mutual fund overall. RVVHX's Very Attractive Portfolio Management rating and 1.93% total annual cost earn it a Very Attractive rating.

On the other hand, Vanguard Extended Market Index Fund (VSEMX) holds poor stocks and earns our Unattractive rating, despite low total annual costs of 0.12%. No matter how cheap a mutual fund, if it holds bad stocks, its performance will be bad. The quality of a mutual fund's holdings matters more than its price.

### 3. Poor Holdings

Avoiding poor holdings is by far the hardest part of avoiding bad mutual funds, but it is also the most important because a mutual fund's performance is determined more by its holdings than its costs. Figure 2 shows the mutual funds within each style with the worst holdings or [portfolio management ratings](#).

**Figure 2: Style Mutual Funds with the Worst Holdings**

Ticker	Name	Style	Portfolio Management Rating
DVALX	MSS Series Footprints Discover Value Fund	All Cap Blend	Very Unattractive
BFOCX	Berkshire Focus Fund	All Cap Growth	Unattractive
VSDIX	Securian AM Real Asset Income Fund	All Cap Value	Unattractive
BLPIX	ProFunds Bull ProFund	Large Cap Blend	Unattractive
INVNX	Ultimus Managers Evolutionary Tree Innovators Fund	Large Cap Growth	Unattractive
DDZRX	Delaware Value Fund	Large Cap Value	Unattractive
DMCYX	BNY Mellon Opportunistic Mid Cap Value Fund	Mid Cap Blend	Unattractive
DBMYX	BNY Mellon Small Mid Cap Growth Fund	Mid Cap Growth	Unattractive
TRMIX	T Rowe Price Mid Cap Value Fund	Mid Cap Value	Unattractive
MPSSX	BNY Mellon Small Cap Multi Strategy Fund	Small Cap Blend	Unattractive
DCGTX	Jackson Square SMID Cap Growth Fund	Small Cap Growth	Unattractive
SMVXS	Invesco Small Cap Value Fund	Small Cap Value	Unattractive

Sources: New Constructs, LLC and company filings

BNY Mellon (DMCYX, DBMYX, MPSSX) appear more often than any other providers in Figure 2, which means that it offers the most mutual funds with the worst holdings.

MSS Series Footprints Discover Value Fund (DVALX) is the worst rated mutual fund in Figure 2. Ultimus Managers Evolutionary Tree Innovators Fund (INVNX), BNY Mellon Small Mid Cap Growth Fund (DBMYX), Jackson Square SMID Cap Growth Fund (DCGTX), Berkshire Focus Fund (BFOCX), BNY Mellon Opportunistic Mid Cap Value Fund (DMCYX), BNY Mellon Small Cap Multi Strategy Fund (MPSSX), and Securian AM Real Asset Income Fund (VSDIX) also earn a Very Unattractive [predictive overall rating](#), which means not only do they hold poor stocks, they charge high total annual costs.

Our [overall ratings on mutual funds](#) are on our [stock ratings](#) of their holdings and the total annual costs of investing in the fund.

### The Danger Within

Buying a mutual fund without analyzing its holdings is like buying a stock without analyzing its business and finances. Put another way, research on mutual fund holdings is necessary due diligence because a mutual

<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](#).



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 MUTUAL FUNDS HOLDINGS = PERFORMANCE OF MUTUAL 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.

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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.

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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.

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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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