



## Our Fund Picks Outperform Too: Long Idea Update

Like our [Danger Zone fund](#) picks, our Long Idea fund picks have outperformed. 15 of our 29 Long Idea fund picks<sup>1</sup> beat their benchmarks since [November 17, 2016](#), when we first picked a mutual fund as a Long Idea.

PERFORMANCE OF FUND = PERFORMANCE OF IT'S HOLDINGS – FEES

Our mutual fund and ETF ratings leverage our [proven-superior](#) research on fund holdings to help investors fulfill their [fiduciary duty of care](#) more efficiently when selecting funds.

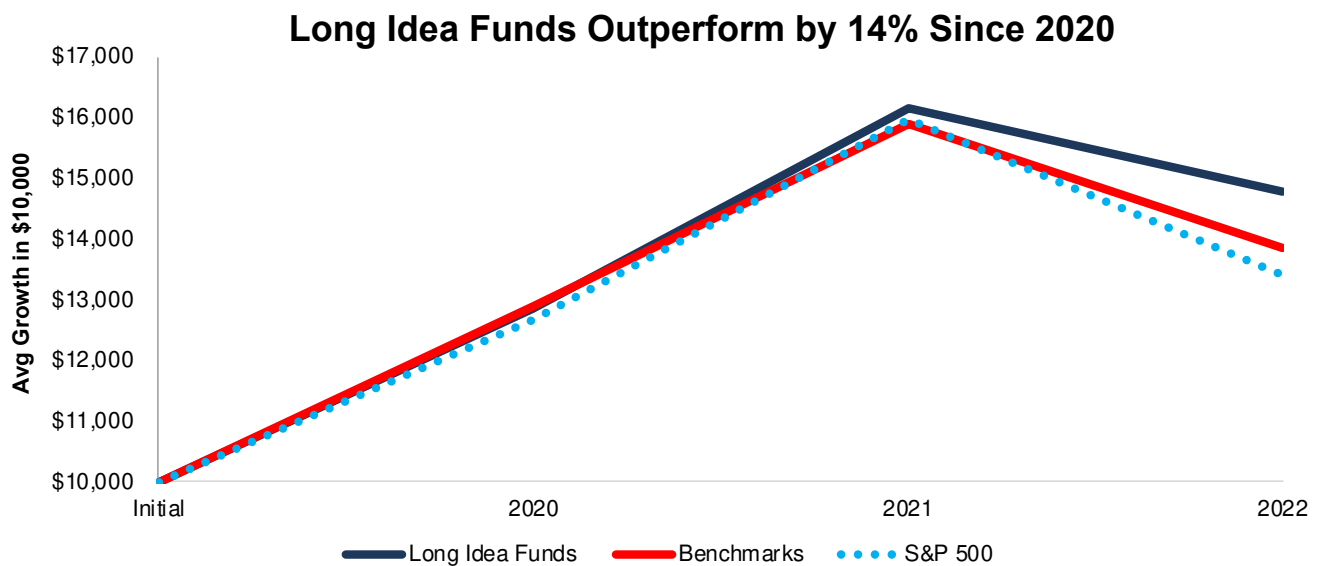
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### 89% of Mutual Fund & ETF Long Ideas Have Beaten Their Benchmark Since 2020

Finding a fund that outperforms its benchmark is no easy task. [About 80%](#) of all actively managed U.S. stock mutual funds underperformed in 2021.

From 2016-2020 our success rate (15 of 29) for picking fund Long Ideas was better than the market, but clearly there was room for improvement. We continued refining our selection criteria and research process, and our performance improved. Since 2020, eight of the nine ETFs and mutual funds we made Long Ideas have outperformed their benchmark. Figure 1 shows the hypothetical growth of \$10,000 invested in the funds we've featured as Long Ideas since 2020. These funds have outperformed their respective benchmarks<sup>2</sup> by 9% and the S&P 500 by 14%.

**Figure 1: Long Idea Fund Performance Vs. Benchmarks & S&P 500 Since 2020**



Sources: New Constructs, LLC and company filings.

<sup>1</sup> This analysis excludes [AllianceBernstein FlexFee Large Cap Growth Portfolio](#) (FFLYX) and [American Beacon Alpha Quant Quality Fund](#) (AQQPX). FFLYX merged with AB Large Cap Growth Fund, Inc (APGAX) and AQQPX [liquidated](#).

<sup>2</sup> Excluding Figure 1, performance of each ETF/mutual fund, the S&P 500, and benchmark is based on growth in \$10,000 as reported by Morningstar from the date each Long Idea was published through 5/16/22.

**57% of Mutual Fund & ETF Long Ideas Have Beaten Their Benchmark Since 2018**

Conducting a stock-by-stock analysis of a fund's holdings can help investors identify funds likely to outperform their benchmark. Since 2018, 13 of the 23 funds we've selected, or 57%, have outperformed their benchmark.

Anyone focused on [fulfilling the fiduciary duty of care](#) recognizes that analyzing the holdings<sup>3</sup> of an ETF or mutual fund is critical to identifying funds that offer attractive risk/reward. Our predictive mutual fund and ETF research is forward-looking because it is based on [proven-superior stock ratings](#)<sup>4</sup> on each individual fund holding. Backward-looking legacy fund research is primarily based on past price performance.

The five funds that have most outperformed their respective benchmarks since each report was published are Pacer U.S. Cash Cows 100 ETF (COWZ), Schwab U.S. Dividend Equity ETF (SCHD), Alpha Architect U.S. Quantitative Value ETF (QVAL), Consumer Staples Select Sector SPDR Fund (XLP), and Thrivent Large Cap Value Fund (TLVIX).

**Figure 2: Five Best Performing Long Idea Funds Through 5/16/2022**

Ticker	Fund	Vs. Benchmark
COWZ	<a href="#">Pacer U.S. Cash Cows 100 ETF</a>	40%
SCHD	<a href="#">Schwab U.S. Dividend Equity ETF</a>	27%
QVAL	<a href="#">Alpha Architect U.S. Quantitative Value ETF</a>	22%
XLP	<a href="#">Consumer Staples Select Sector SPDR Fund</a>	16%
ARTQX	<a href="#">Artisan Mid Cap Value Fund</a>	14%

Sources: New Constructs, LLC and company filings.

Figure 1 excludes Rydex Energy Services Fund (RYESX) as the mutual fund is no longer in our [coverage universe](#).

**Relying on Traditional Ratings Can Cost You**

Our forward-looking ETF and mutual fund ratings are often very different from backward-looking legacy ratings, such as those from Morningstar (MORN). Nearly all of our Long Idea fund picks had Attractive-or-better (equivalent to 4 or 5 stars) ratings versus a Morningstar rating of 3 stars or worse.

Investing based on legacy ratings could cost you. Of the three-star-or-worse Morningstar rated funds we've made Long Ideas since 2016, 79% have outperformed their benchmark by an average of 3%. Details in Figure 3.

**Figure 3: Long Idea Funds That Got a 3-Star-or-Worse Morningstar Rating: Performance Through 5/16/22**

Ticker	Fund	Morningstar Rating*	New Constructs Rating*	Vs. Benchmark
QVAL	Alpha Architect U.S. Quantitative Value ETF	1 Star	Very Attractive	22%
XLP	Consumer Staples Select Sector SPDR Fund	3 Star	Very Attractive	16%
ARTQX	Artisan Mid Cap Value Fund	2 Star	Attractive	14%
TLVIX	Thrivent Large Cap Value Fund	3 Star	Very Attractive	9%
GMJEX	GMO U.S. Equity Fund	3 Star	Very Attractive	8%
HFLGX	Hennessy Cornerstone Large Growth Fund	3 Star	Very Attractive	6%
FIDFX	Fidelity Advisor Mid Cap Value Fund	3 Star	Very Attractive	6%
PXIIX	Virtus KAR Equity Income Fund	2 Star	Very Attractive	4%
VALQ	American Century STOXX U.S. Quality Value	3 Star	Very Attractive	3%
MDDLX	MassMutual Diversified Value Fund	3 Star	Very Attractive	2%
FUQIX	Fidelity SAI U.S. Quality Index Fund	3 Star	Very Attractive	2%
MOPRX	MainStay WMC Small Companies Fund	2 Star	Attractive	-14%
KDHCX	DWS CROCI Equity Dividend Fund	3 Star	Very Attractive	-14%
DCURX	DWS CROCI U.S. Fund	3 Star	Very Attractive	-24%
<b>Average</b>		<b>2.6 Star</b>	<b>Very Attractive</b>	<b>3%</b>

Sources: New Constructs, LLC and company filings.

\*as of the publication date of the Long Idea

<sup>3</sup> Harvard Business School features the powerful impact of our research automation technology in the case [New Constructs: Disrupting Fundamental Analysis with Robo-Analysts](#).

<sup>4</sup> Our research utilizes our [Core Earnings](#), a more reliable measure of profits, as proven in [Core Earnings: New Data & Evidence](#), written by professors at Harvard Business School (HBS) & MIT Sloan and published in [The Journal of Financial Economics](#).

**Differences in Our Ratings Add Value**

Alpha Architect U.S. Quantitative Value ETF (QVAL) illustrates how our forward-looking, holdings-based ratings are superior to backward-looking ratings. When we made QVAL a Long Idea on [October 14, 2020](#), it received our Very Attractive (equivalent to 5 stars) fund rating, while Morningstar gave the fund a one Star rating. Since then, the fund is up 38% versus just 16% for its benchmark, iShares Russell Mid-Cap ETF (IWR). In the five years prior to our report, QVAL returned just 15% compared to 64% for IWR. Ratings based on past performance can cost you.

**Five Funds with Big Difference in Ratings**

Morningstar rates these funds 1- or 2-stars, while we rate them Attractive or Very Attractive. [Alpha Architect U.S. Quantitative Value ETF](#) (QVAL)

1. [Artisan Mid Cap Value Fund](#) (ARTQX)
2. [DWS CROCI Equity Dividend Fund](#) (KDHCX)
3. [iShares MSCI U.S.A. Value Factor ETF](#) (VLUE)
4. [DWS CROCI U.S. Fund](#) (DCURX)

**These Funds Remain Attractive**

Figure 4 shows the five funds we've made Long Ideas that still receive an Attractive-or-better rating. These funds still allocate to high-quality stocks and charge relatively low fees. 13 out of 24 of the Long Ideas that still earn an Attractive-or-better rating have outperformed their benchmark since our original report.

**Figure 4: Open Long Idea Funds: Performance through 5/16/22**

Ticker	Fund	Rating	Vs. Benchmark
COWZ	Pacer U.S. Cash Cows 100 ETF	Very Attractive	40%
SCHD	Schwab U.S. Dividend Equity ETF	Very Attractive	27%
QVAL	Alpha Architect U.S. Quantitative Value ETF	Very Attractive	22%
XLP	Consumer Staples Select Sector SPDR Fund	Very Attractive	16%
ARTQX	Artisan Mid Cap Value Fund	Attractive	14%
TLVIX	Thrivent Large Cap Value Fund	Attractive	9%
GMUEX	GMO U.S. Equity Fund	Very Attractive	8%
HFLGX	Hennessy Cornerstone Large Growth Fund	Very Attractive	6%
PXII	Virtus KAR Equity Income Fund	Very Attractive	4%
KBWB	Invesco KBW Bank ETF	Very Attractive	3%
VALQ	American Century STOXX U.S. Quality Value ET	Very Attractive	3%
MDDLX	MassMutual Diversified Value Fund	Very Attractive	2%
FUQIX	Fidelity SAI U.S. Quality Index Fund	Very Attractive	2%
LMBGX	BrandywineGibl - Dynamic U.S. Lg Cap Value Fd	Very Attractive	0%
QDF	FlexShares Quality Dividend Index Fund	Very Attractive	-4%
RYSEX	Royce Special Equity Fund	Very Attractive	-5%
PROVX	Provident Trust Strategy Fund	Very Attractive	-6%
RVVHX	Royce Small Cap Value Fund	Very Attractive	-9%
KDHCX	DWS CROCI Equity Dividend Fund	Very Attractive	-14%
VLUE	iShares MSCI U.S.A. Value Factor ETF	Very Attractive	-15%
XHB	SPDR S&P Homebuilders ETF	Very Attractive	-15%
DEEP	Roundhill Acquirers Deep Value ETF	Very Attractive	-21%
DCURX	DWS CROCI U.S. Fund	Very Attractive	-24%
ZIG	Acquirers Fund	Very Attractive	-31%

Sources: New Constructs, LLC and company filings.

**Closing These Long Ideas**

Figure 5 shows the ETFs and mutual funds that no longer receive an Attractive-or-better rating (or are no longer in our coverage universe). The risk reward profile of these funds has changed since our original report, and we're closing them as Long Ideas.



**Figure 5: Closed Long Ideas: Performance through 5/16/22**

Ticker	Fund	Current Rating	Vs. Benchmark
FIDFX	Fidelity Advisor Mid Cap Value Fund	Neutral	6%
KIE	SPDR S&P Insurance ETF	Neutral	-2%
JETS	U.S. Global Jets ETF	Very Unattractive	-84%

Sources: New Constructs, LLC and company filings.

**How to Avoid “The Danger Within”**

Why do you need to know the holdings of an ETF or 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 – FEES = 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.

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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***

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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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