



How to Find the Best Style ETFs 1Q23

With an ever-growing list of similar-sounding ETFs 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 ETF Labels

There are at least 168 different All Cap Blend ETFs and at least 725 ETFs across twelve styles. Do investors need 60+ choices on average per style? How different can the ETFs be?

Those 168 All Cap Blend ETFs are very different from each other. With anywhere from 21 to 3,997 holdings, many of these All Cap Blend ETFs have drastically different portfolios with differing risk profiles and performance outlooks.

The same is true for the ETFs in any other style, as each offers a very different mix of good and bad stocks. Large Cap Value ranks first for stock selection. Small Cap Growth ranks last. Details on the [Best & Worst ETFs in each style are here](#).

Avoiding Analysis Paralysis

We think the large number of style ETFs hurts investors more than it helps. Manually conducting a deep analysis for every ETF is simply not a realistic option, exposing investors to insufficient analysis and missing profitable opportunities. Analyzing ETFs, with the proper diligence¹, is far more difficult than analyzing stocks because it means analyzing all the stocks within each ETF. As stated above, there can be as many as 3,997 stocks or more for one ETF.

Anyone focused on [fulfilling the fiduciary duty of care](#) recognizes that analyzing the holdings² of an ETF is critical to finding the best ETF. More [reliable](#) & [proprietary](#) fundamental data, proven in [The Journal of Financial Economics](#), drives our research and analysis of ETF holdings and provides investors with a [new source of alpha](#). Figure 1 shows our top-rated ETF for each style.

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

² Harvard Business School features the powerful impact of our research automation technology in the case [New Constructs: Disrupting Fundamental Analysis with Robo-Analysts](#).

**Figure 1: The Best ETF in Each Style**

Ticker	Name	Investment Style	Assets (\$mm)
NAIL	Direxion Daily Homebuilders and Supplies Bull 3X Shares	All Cap Blend	\$183
RPG	Invesco S&P 500 Pure Growth ETF	All Cap Growth	\$2,268
SDVY	First Trust SMID Cap Rising Dividend Achievers ETF	All Cap Value	\$1,116
EPS	WisdomTree U.S. LargeCap Fund	Large Cap Blend	\$662
MTUM	iShares MSCI USA Momentum Factor ETF	Large Cap Growth	\$12,209
GVLU	Tidal ETF Trust: Gotham 1000 Value ETF	Large Cap Value	\$137
QVAL	Alpha Architect U.S. Quantitative Value ETF	Mid Cap Blend	\$251
QMOM	Alpha Architect: U.S. Quantitative Momentum ETF	Mid Cap Growth	\$144
LSAT	LeaderShares AlphaFactor Tactical Focused ETF	Mid Cap Value	\$184
VAMO	Cambria ETF Trust: Cambria Value and Momentum ETF	Small Cap Blend	\$137
XMMO	Invesco S&P MidCap Momentum ETF	Small Cap Growth	\$1,094
XMVM	Invesco S&P MidCap Value with Momentum ETF	Small Cap Value	\$225

* Best ETFs excludes ETFs with Total Net Assets (TNA) under \$100 million due to inadequate liquidity

Sources: New Constructs, LLC and company filings

Amongst the ETFs in Figure 1, Direxion Daily Homebuilders and Supplies Bull 3X Shares (NAIL) ranks first overall, Alpha Architect U.S. Quantitative Value ETF (QVAL) ranks second, and Cambria ETF Trust: Cambria Value (VAMO) and Momentum ETF ranks third. Invesco S&P MidCap Momentum ETF (XMMO) ranks last.

How to Avoid “The Danger Within”

Why do you need to know the holdings of ETFs before you buy?

You need to be sure you do not buy an ETF that might blow up. Buying an ETF 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 ETF’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.

If Only Investors Could Find Funds Rated by Their Holdings

Our [ETF ratings](#) leverage our [stock coverage](#). We rate ETFs based on the aggregated ratings of the stocks each ETF holds.

Direxion Daily Homebuilders and Supplies Bull 3X Shares is not only the top-rated All Cap Blend ETF, but is also the overall top-ranked style ETF out of the 725 style ETFs that we cover.

The worst ETF in Figure 1 is Invesco S&P MidCap Momentum ETF, which still gets a Very Attractive rating.

This article was originally published on [February 9, 2023](#).

Disclosure: David Trainer, Kyle Guske II, and Italo Mendonca 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. 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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