



## How to Avoid the Worst Style Mutual Funds

Question: Why are there so many mutual funds?

Answer: Mutual fund management is profitable, so Wall Street creates more products to sell.

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The large number of mutual funds has little to do with serving your best interests as an investor. 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 two red flags you can use to avoid the worst mutual funds:

### 1. High Fees

Mutual funds should be cheap, but not all of them are. The first step is to benchmark what cheap means.

To ensure you are paying at or below average fees, invest only in mutual funds with [total annual costs](#) below 1.61% – the average total annual cost of the 5,461 U.S. equity Style mutual funds we cover. The weighted average is lower at 0.84%, which highlights how investors tend to put their [money in mutual funds with low fees](#).

Figure 1 shows Northern Lights Issachar Fund (LIONX) is the most expensive style mutual fund and Vanguard 500 Index Fund (VFFSX) is the least expensive. Northern Lights (LIONX and LIOTX) provides two of the most expensive mutual funds while Vanguard (VFFSX, VSTSX, and VSMPX) 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>			
LIONX	Northern Lights Issachar Fund	All Cap Blend	7.81%
LIOTX	Northern Lights Issachar Fund	All Cap Blend	7.50%
ADOAX	AXS Dynamic Opportunity Fund	All Cap Growth	6.07%
ABRFX	DSS AmericaFirst Monthly Risk-On Risk-Off Fund	All Cap Blend	5.92%
BFOCX	Berkshire Focus Fund	All Cap Growth	5.73%
<b>Least Expensive</b>			
VFFSX	Vanguard 500 Index Fund	Large Cap Blend	0.02%
VSTSX	Vanguard Total Stock Market Index Fund	All Cap Blend	0.02%
FSKAX	Fidelity Total Market Index Fund	All Cap Blend	0.02%
FXAIX	Fidelity 500 Index Fund	Large Cap Blend	0.02%
VSMPX	Vanguard Total Stock 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> Fidelity 500 Index Fund (FXAIX) is the best ranked style mutual fund in Figure 1. FXAIX's Neutral [Portfolio Management rating](#) and 0.02% total annual cost earns it an Attractive rating.<sup>2</sup> Royce Small-Cap special Equity Fund (RSEIX) is the best ranked style mutual fund overall.

<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](#).



RSEIX's Attractive Portfolio Management rating and 1.37% total annual cost also earns it a Very Attractive rating.

On the other hand, T Rowe Price Mid-Cap Value Fund (TRTZX) holds poor stocks and earns our Unattractive rating, yet has 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.

**2. 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
JAGNX	Janus Henderson Adaptive Global Allocation Fund	All Cap Blend	Very Unattractive
MADXSX	Morgan Stanley Advantage Portfolio	All Cap Growth	Unattractive
VAAGX	Virtus NFJ Large-Cap Value Fund	All Cap Value	Unattractive
EEIFX	Monteagle Enhanced Equity Income Fund	Large Cap Blend	Unattractive
AGGDY	American Century World Focused Global Growth Fund	Large Cap Growth	Unattractive
LOMAX	Advisors Series Lomax Value Fund	Large Cap Value	Unattractive
QNTAX	Meeder Secret Rotation Fund	Mid Cap Blend	Very Unattractive
DBMYX	BNY Mellon Small/Mid Cap Growth Fund	Mid Cap Growth	Unattractive
TRTZX	T Rowe Price Mid-Cap Value Fund	Mid Cap Value	Unattractive
PQJCX	Prudential PGIM Jennison SmallCap Core Equity Fund	Small Cap Blend	Unattractive
JGSMX	JP Morgan Small Cap Growth Fund	Small Cap Growth	Unattractive
FRCSX	Franklin Small Cap Value Fund	Small Cap Value	Unattractive

Sources: New Constructs, LLC and company filings

Janus Henderson Adaptive Global Allocation Fund (JAGNX) is the worst rated mutual fund in Figure 2 based on our [predictive overall rating](#). Meeder Secret Rotation Fund (QNTAX), Morgan Stanley Advantage Portfolio (MADXSX), BNY Mellon Small/Mid Cap Growth Fund (DBMYX), Franklin Small Cap Value Fund (FRCSX), Prudential PGIM Jennison SmallCap Core Equity Fund (PQJCX), and JP Morgan Small Cap Growth Fund (JGSMX) 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](#) reflects our [stock ratings](#) of their holdings and a measure of 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 model and finances. Put another way, research on mutual fund holdings is necessary due diligence because a mutual fund's performance is only as good as its holdings. Don't just take our word for it, [see what Barron's says](#) on this matter.

PERFORMANCE OF MUTUAL FUND'S HOLDINGS – FEES = 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 technology to get the diligence required to make prudent investment decisions.

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*Disclosure: David Trainer, Kyle Guske II, and Hakan Salt receive no compensation to write about any specific stock, style, or theme.*

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## *It's Official: We Deliver 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. The stock market is missing footnotes – and only we have that critical data.
2. Legacy fundamental datasets suffer from significant inaccuracies, omissions, and biases.
3. Our proprietary drives novel alpha. Our measures of [Core Earnings](#) and [Earnings Distortion](#) materially improve stock picking and forecasting of profits.

### **Best Fundamental Data in the World**

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**

Ernst & Young 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 Harvard Business School. 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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