



## 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 1.59% – the average total annual cost of the 5,438 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 Fund Issachar Fund (LIONX) is the most expensive style mutual fund and Vanguard 500 Index Fund (VFFSX) is the least expensive. Northern Lights provides two of the most expensive mutual funds while Vanguard and Fidelity 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 Fund Issachar Fund     | All Cap Blend   | 6.58%             |
| QCGDX                  | Quantified Common Ground Fund          | All Cap Blend   | 6.43%             |
| HROAX                  | M3Sixty Income and Opportunity Fund    | All Cap Blend   | 6.32%             |
| LIOTX                  | Northern Lights Fund Issachar Fund     | All Cap Blend   | 6.27%             |
| BFOCX                  | Berkshire Focus Fund                   | All Cap Growth  | 5.76%             |
| <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%             |
| FXAIX                  | Fidelity 500 Index Fund                | Large Cap Blend | 0.02%             |
| FSKAX                  | Fidelity Total Market Index Fund       | All Cap Blend   | 0.02%             |
| SWPPX                  | Schwab S&P 500 Index Fund              | Large 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 Unattractive [Portfolio Management rating](#) is offset by its 0.02% total annual cost and earns an Attractive rating.<sup>2</sup> Fidelity SAI U.S. Value Index Fund (FSWCX) is one of the best ranked style

<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](#).



mutual funds overall. FSWCX's Neutral Portfolio Management rating and 0.25% total annual cost earns it a Very Attractive rating.

On the other hand, Fidelity Small Cap Index Fund (FSSNX) holds poor stocks and earns our Unattractive rating, yet has low total annual costs of 0.07%. 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 |
|--------|---|------------------|-----------------------------|
| LEVIX  | Lazard U.S. Equity Concentrated Portfolio | All Cap Blend    | Unattractive                |
| TCPWX  | Transamerica Capital Growth               | All Cap Growth   | Unattractive                |
| CILGX  | ALPS Series Clarkston Fund                | All Cap Value    | Unattractive                |
| SDYYX  | SEI Dynamic Asset Allocation Fund         | Large Cap Blend  | Unattractive                |
| CLPFX  | Catalyst NASDAQ 100 Hedged Equity Fund    | Large Cap Growth | Unattractive                |
| TALCX  | Transamerica Large Cap Value              | Large Cap Value  | Unattractive                |
| DMCYX  | BNY Mellon Opportunistic Mid Cap Fund     | Mid Cap Blend    | Unattractive                |
| DBMYX  | BNY Mellon Small/Mid Cap Growth Fund      | Mid Cap Growth   | Unattractive                |
| WVMCX  | Westwood Quality Mid Cap Fund             | Mid Cap Value    | Unattractive                |
| PQJCX  | PGIM Jennison Small Cap Core Equity Fund  | Small Cap Blend  | Unattractive                |
| JGSMX  | JPMorgan Small Cap Growth Fund            | Small Cap Growth | Unattractive                |
| PVFIX  | Bertolet Pinnacle Value Fund              | Small Cap Value  | Very Unattractive           |

Sources: New Constructs, LLC and company filings

BNY Mellon appears more often than any other providers in Figure 2, which means that they offer the most mutual funds with the worst holdings.

Transamerica Capital Growth (TCPWX) is the worst rated mutual fund in Figure 2 based on our [predictive overall rating](#). JPMorgan Small Cap Growth Fund (JGSMX), PGIM Jennison Small Cap Core Equity Fund (PQJCX), BNY Mellon Small Mid Cap Growth Fund (DBMYX), and Bertolet Pinnacle Value Fund (PVFIX) 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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## *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.

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