



This Fund Finds Real Value in an Expensive Market

We recently published our quarterly Best and Worst ETFs and Mutual Funds reports that rank the [11 sectors](#) and [12 investment styles](#). These reports provide a bottom-up assessment of the fundamental risk/reward in each sector or style based upon the stocks in those sectors and styles.

Our ETF and mutual fund ratings are based on the aggregation of our ratings for the stocks held by each fund. This week, we're bringing a Very Attractive mutual fund in the top-ranked Style to your attention.

After rigorous analysis of our database of 7,600+ ETFs and mutual funds, we found a mutual fund that successfully picks stocks with strong fundamentals and cheap valuations while charging below-average fees. Fidelity Value Discovery Fund (FVDFX) is this week's [Long Idea](#).

Backwards Looking Research Underrates this Fund

Morningstar gives both share classes of the Fidelity Value Discovery Fund a 2-Star (backward-looking) rating. Instead of looking at past performance, we analyze funds based on their holdings. When viewed through our [Predictive Risk/Reward Fund Rating](#) methodology, both share classes earn a Very Attractive rating. See Figure 1.

Figure 1: Fidelity Value Discovery Fund Ratings

Ticker	Morningstar Rating	New Constructs Rating
FVDFX	2 Star	Very Attractive
FVDKX	2 Star	Very Attractive

Sources: New Constructs, LLC and [Morningstar](#)

Higher quality holdings and lower average costs mean Fidelity Value Discovery Fund is more likely to outperform moving forward, which is something traditional fund research can't tell you.

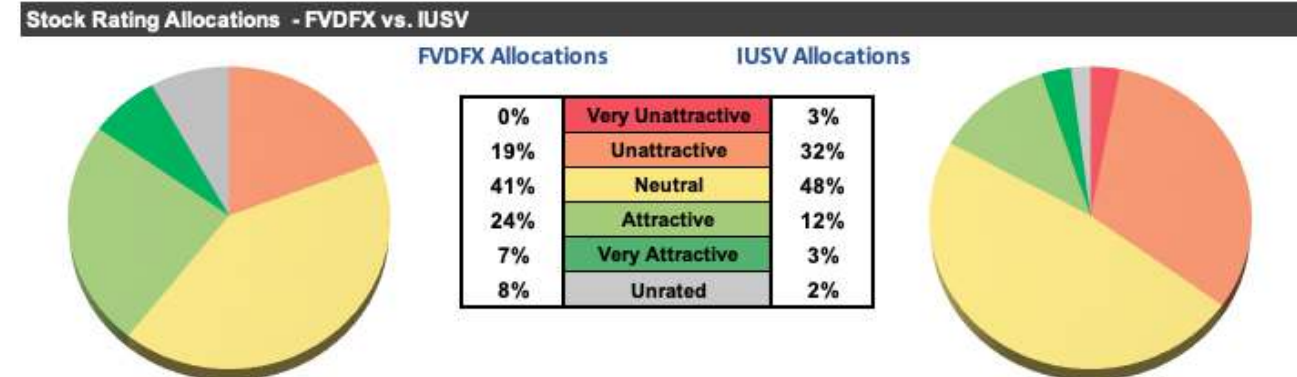
How Our Forward-Looking Research Reveals a Very Attractive Fund

Our analysis of its holdings reveals the fund allocates more to high-quality stocks, i.e. profitable companies with undervalued stock prices, than its benchmark, iShares Core S&P U.S. Value ETF (IUSV). See Figure 2.

We leverage our [Robo-Analyst technology](#)¹ to assess a mutual fund's portfolio quality by analyzing the fund's individual stock holdings.

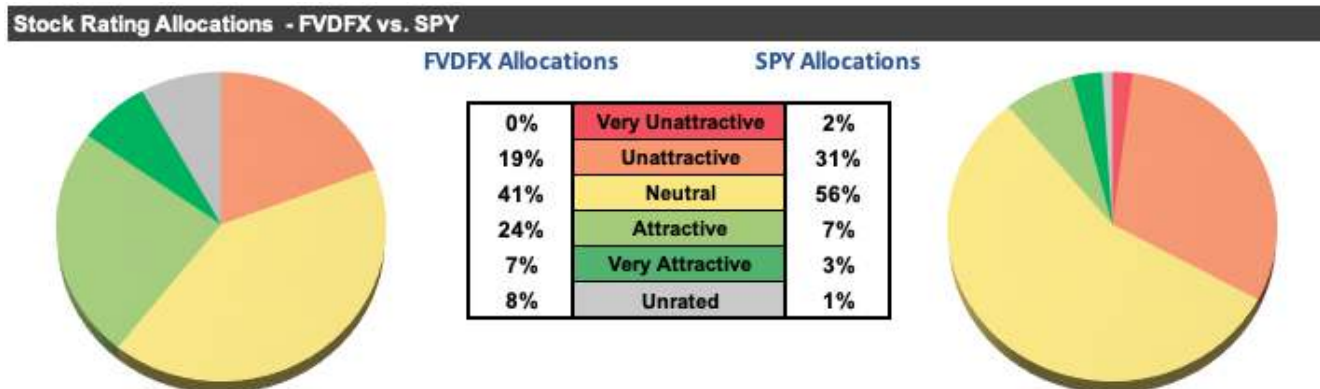
Through this rigorous analysis, we find that FVDFX allocates 31% of its assets to Attractive-or-better rated stocks compared to just 15% for IUSV. On the flip side, FVDFX allocates just 19% of its assets to Unattractive-or-worse rated stocks compared to 35% for IUSV.

¹ Our Robo-Analyst technology provides [superior fundamental data](#), as proven in [The Journal of Financial Economics](#), and a [novel source of alpha](#).

**Figure 2: FVDFX Holdings Vs. IUSV Holdings**

Sources: New Constructs, LLC, company, ETF, and mutual fund filings

Per Figure 3, our holdings analysis also reveals FVDFX's portfolio is of much higher quality than the S&P 500 as represented by State Street SPDR S&P 500 ETF Trust (SPY). SPY earns our Attractive rating, but only 10% of SPY's portfolio is allocated to stocks rated Attractive-or-better and 33% is allocated to stocks rated Unattractive-or-worse.

Figure 3: FVDFX Holdings Vs. SPY Holdings

Sources: New Constructs, LLC, company, ETF, and mutual fund filings

Fund Managers Focus on Valuation

FVDFX's [investment strategy](#) aims to identify stocks that are undervalued in the marketplace in relation to factors such as assets, sales, earnings, growth potential, cash flow, or in relation to securities of other companies in the same industry. Fidelity notes that these types of stocks are often referred to as "value stocks."

The fund's prospectus specifically notes that the fund looks for companies "experiencing positive fundamental change", which could include:

- a new management team or product launch,
- a significant cost-cutting initiative,
- a merger or acquisition,
- a reduction in industry capacity that would lead to improved pricing,
- companies whose earnings potential has increased or is expected to increase more than generally perceived, and
- companies that have enjoyed recent market popularity, but which appear to have temporarily fallen out of favor for reasons considered short-term or non-recurring.

When analyzing value, the fund uses "traditional and other measures" including earnings relative to [enterprise value](#). Enterprise value represents the value of the firm to all stakeholders and is the denominator in our calculation of [2-year average free cash flow yield](#).



We would love more details or calculations behind the fund's "bottom-up" fundamental analysis, but without them, we can only judge the methodology by its results, or the stocks the fund allocates too.

Given the fund's superior asset allocation (compared to its benchmark and the SPY), it's clear the investment strategy successfully finds stocks that provide quality risk/reward, as we'll detail below.

Quality Stocks Drive Very Attractive Risk/Reward Rating

Figure 4 shows our detailed rating for FVDFX, which includes each of the criteria we use to rate all mutual funds under coverage. These criteria are the same for our [Stock Rating Methodology](#), because the performance of a mutual fund's holdings drives the performance of the mutual fund after fees. Figure 4 also compares FVDFX's rating with those of IUSV, SPY and IWM.

Figure 4: Fidelity Value Discovery Fund Breakdown

Risk/Reward Rating 📊	Portfolio Management 📊						Total Annual Costs 📊
	Quality of Earnings 📊		Valuation 📊			Asset Allocation	
	Economic vs Reported EPS 📊	ROIC 📊	2 yr Avg FCF (excl cash) Yield 📊	Price to EBV 📊	Market-Implied GAP 📊	Cash % 📊	
Very Unattractive	Misleading Trend	Bottom Quintile	< -5%	> 3.5 or -1< 0	> 50	> 20%	> 4%
Unattractive	False Positive	4th Quintile	-5% < -1%	2.4< 3.5 or < -1	20 < 50	8% < 20%	2% < 4%
Neutral	Neutral EE	3rd Quintile	-1% < 3%	1.6< 2.4	10 < 20	2.5% < 8%	1% < 2%
Attractive	Positive EE	2nd Quintile	3% < 10%	1.1< 1.6	3 < 10	1% < 2.5%	0.5% < 1%
Very Attractive	Rising EE	Top Quintile	> 10%	0< 1.1	0 < 3	< 1%	< 0.5%
Actual Values							
FVDFX	Positive EE	11%	4%	1.6	29 yrs	2%	0.8%
Benchmarks 📊							
Style ETF (IUSV)	Positive EE	16%	2%	2.7	54 yrs	-	0.0%
S&P 500 ETF (SPY)	Positive EE	32%	2%	3.5	71 yrs	-	0.1%
Small Cap ETF (IWM)	Positive EE	7%	0%	4.1	51 yrs	-	0.2%

Sources: New Constructs, LLC and company filings

FVDFX's holdings are superior or equal to IUSV and SPY in four out five of the criteria that make up our [Portfolio Management](#) rating. Specifically:

- FVDFX's holdings generate positive economic earnings, same as IUSV and SPY.
- FVDFX's free cash flow (FCF) yield of 4% is higher than IUSV and SPY's at 2%.
- The price-to-economic book value (PEBV) ratio for FVDFX's holdings is 1.6, which is much lower than IUSV's at 2.7 and SPY's at 3.5.
- Our [discounted cash flow analysis](#) reveals an average market-implied growth appreciation period (GAP) of just 29 years for FVDFX's holdings compared to 54 years for IUSV and 71 years for SPY.

The takeaway?

FVDFX allocates to profitable businesses, as measured by the 11% ROIC of its holdings, which trade at prices that are much cheaper than the stocks held in the benchmark.

Strong profitability + cheap valuation = quality risk/reward.

A Closer Look at Holdings Reveals More Positives

Of the 108 FVDFX's holdings in our [coverage universe](#), 10 are also open Long Ideas of ours. These 10 stocks make up nearly 12% of FVDFX's portfolio.

Also, of the 108 holdings under coverage:

- 98% have a positive ROIC,
- 83% have a positive 2-year average free cash flow yield,
- 81% have a positive PEBV ratio of 2.7 (equal to benchmark) or less, and



- 71% have a GAP of 54 years (equal to benchmark) or less.

Quality Stock Selection at Below Average Cost

FVDFX's 0.76% total annual costs ([TAC](#)) are below the 1.50% simple average and 1.10% asset-weighted average of the 914 other All Cap Value mutual funds under coverage. Figure 5 shows our breakdown of FVDFX's total annual costs, which is available for all 7,600+ mutual funds and ETFs under coverage.

Figure 5: FVDFX's Total Annual Costs Breakdown

Total Annual Costs Breakdown		
All Cost Types	FVDFX	IUSV
Front-End Load	0.00%	--
Expense Ratio	0.69%	0.04%
Back-End Load	0.00%	--
Redemption Fee	0.00%	--
Transaction Costs	0.07%	--
Total Annual Costs	0.76%	0.04%

Sources: New Constructs, LLC and company filings

The Importance of Holdings Based Fund Analysis

We offer clients in-depth reports for all the 7,600+ ETFs and mutual funds under coverage. Click below for a free copy of our standard mutual fund report on FVDFX.

Free Copy of our FVDFX report

Smart fund (or ETF) investing means analyzing each of the holdings of a fund. Simply buying an ETF or mutual fund based on past performance [does not necessarily lead](#) to outperformance. Only thorough holdings-based research can help determine if a fund's methodology leads managers to pick high-quality or low-quality stocks.

Most investors don't realize they can access superior fundamental research that enables them to [overcome](#) inaccuracies, omissions, and biases in legacy fundamental research and data. Our Robo-Analyst technology analyzes the holdings of all 1,081 ETFs and mutual funds in the All Cap Value style and ~7,600+ ETFs and mutual funds under coverage to avoid "[the danger within](#)".

Build A Better Fund: Use our DIY ETF Tool

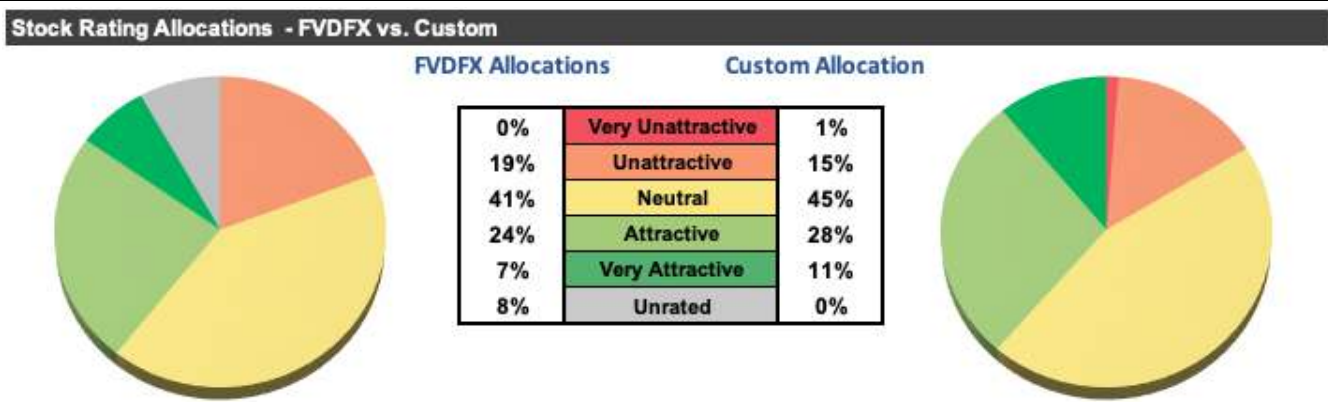
As we show in [The Paradigm Shift to DIY ETFs](#), new technologies enable investors to create their own fund without any fees while also enabling better, more sophisticated weighting methodologies. For example, if we reallocate the fund's capital to the companies with the best ROICs, our [customized fund](#) allocates:

- 39% of assets to Attractive-or-better rated stocks (compared to 31% for FVDFX)
- 16% of assets to Unattractive-or-worse rated stocks (compared to 19% for FVDFX)

Compare the quality of stock allocation in as-is FVDFX vs. our customed version of FVDFX in Figure 6.



Figure 6: FVDFX Vs. Custom Fund Allocations



Sources: New Constructs, LLC and company filings

Note that our DIY ETF tool allows clients to pick and weight portfolio holdings based on multiple proprietary metrics, such as [Core Earnings](#), [Economic Earnings](#), [Free Cash Flow](#), [Net Operating Profit After Tax](#) and more.

Check Out the Indices Based on New Constructs Research

While we're writing about creating your own fund, we should highlight the indices we've developed with Bloomberg's Index Licensing Group. All three outperformed the S&P 500 in 1H25. See Figures 7-9.

1. [Bloomberg New Constructs Core Earnings Leaders Index](#) (ticker: [BCORET:IND](#))
2. [Bloomberg New Constructs Ratings VA-1 Index](#) (ticker: [BNCVA1T:IND](#))
3. [Bloomberg New Constructs 500 Index](#) (ticker: [B500NCT:IND](#))

The Bloomberg New Constructs Core Earnings Leaders Index beat the S&P 500 by over 7% in 1H25. Our Index (ticker: [BCORET:IND](#)) was up 13.9% while the S&P 500 was up 6.8%. That's pretty good! See Figure 7 for details.



Figure 7: Bloomberg New Constructs Core Earnings Leaders Index Outperforms the S&P 500 in 1H25

Bloomberg New Constructs Core Earnings Leaders Total Return Index

BCORET:IND
(USD) · Market closed

4,816.13 ▲0.00 0.00%

As of 4:15 PM EDT 07/04/25.

Core Earnings Leaders Index beats the S&P 500 by ~7% in 1H 2025.

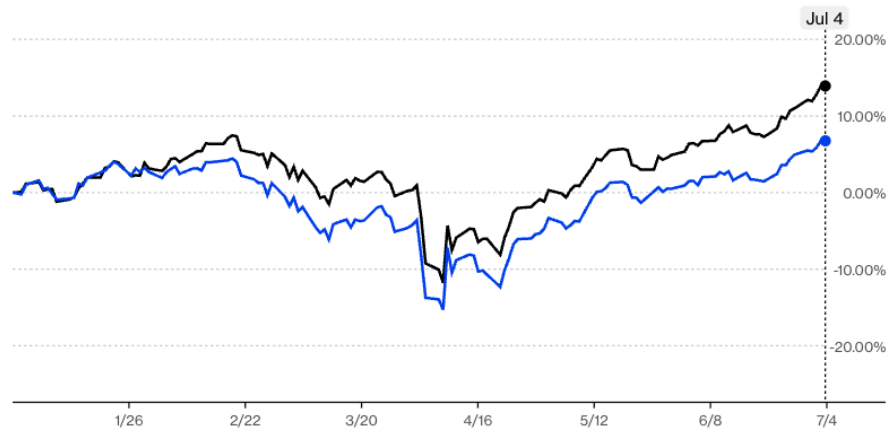
✓
Following

Summary Related News Index Info

1D 1M 6M YTD 1Y 5Y

Q SPX:IND

■ BCORET:IND +13.92% ■ SPX:IND +6.76% ×



Sources: [Bloomberg](#) as of July 4, 2025

Note: Past performance is no guarantee of future results.

The "Very Attractive Stocks" Index beat the S&P 500 by over 0.5% in 1H25. Bloomberg's official name for the index is Bloomberg New Constructs Ratings VA-1Index (ticker: BNCVAT1T:IND). Figure 8 shows it was up 7.3% while the S&P 500 was up 6.8%.



Figure 8: Very Attractive-Rated Stocks Strongly Outperform the S&P 500 in 1H25

Bloomberg New Constructs Ratings VA-1 Total Return Index

BNCVA1T:IND
(USD) · Market closed

The Very Attractive Stocks Index beats the S&P 500 by 0.5% in 1H2025.

3,291.32 ▲6.94 +0.21%

As of 4:15 PM EDT 07/03/25.

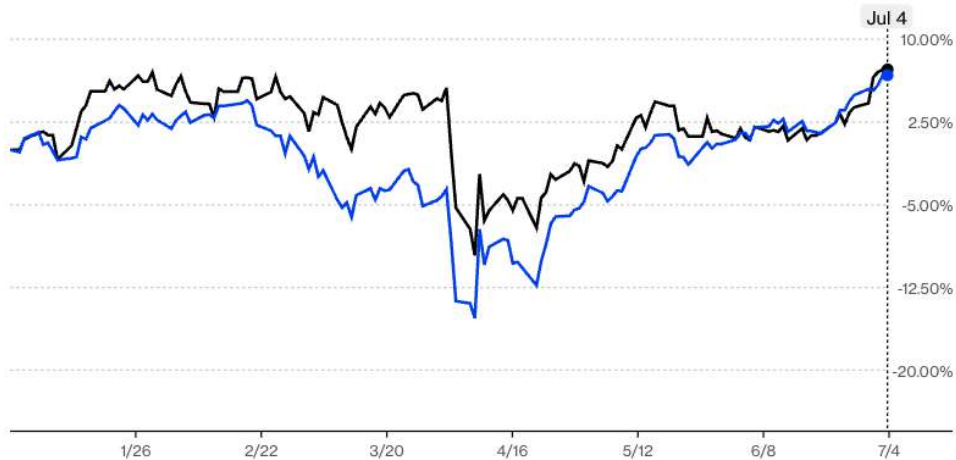
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Following

Summary Related News Index Info

1D 1M 6M YTD 1Y 5Y

Q SPX:IND

■ BNCVA1T:IND +7.27% ■ SPX:IND +6.76% ×



Sources: [Bloomberg](#) as of July 4, 2025

Note: Past performance is no guarantee of future results.

Our "Core-Earnings Weighted S&P 500" Index beat the S&P 500 by over 0.3% in 1H25. Bloomberg's official name for the index is Bloomberg New Constructs 500 Total Return Index (ticker: BNCVA1T:IND). Figure 9 shows it was up 7.1% while the S&P 500 was up 6.8%.



Figure 9: Bloomberg New Constructs 500 Index Strongly Outperforms the S&P 500 in 1H25

Bloomberg New Constructs 500 Total Return Index

B500NCT:IND
(USD) · Market closed

4,485.49 ▲36.52 +0.82%

As of 4:15 PM EDT 07/02/25.

Core Earnings-Weighted S&P 500 beats Legacy S&P 500 by 0.3% in 1H2025

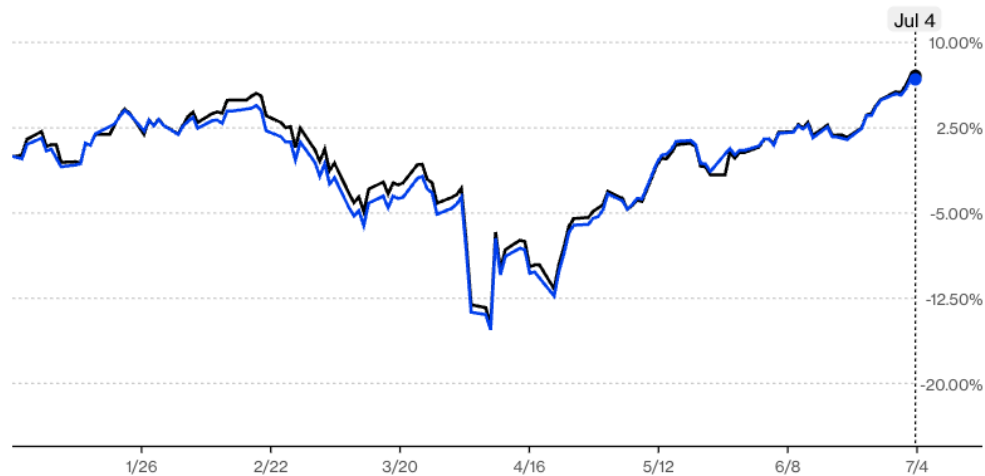
Following

Summary Related News Index Info

1D 1M 6M YTD 1Y 5Y

SPX:IND

■ B500NCT:IND +7.07% ■ SPX:IND +6.76% ✕



Sources: [Bloomberg](#) as of July 4, 2025

Note: Past performance is no guarantee of future results.

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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.

Questions on this report or others? Join our [online community](#) and connect with us directly.



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, 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

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, 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 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, 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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