



Validea ETF Factor Screener User Guide

The Validea ETF Factor Screener allows you to screen for ETFs using the five major investing factors (size, value, quality, momentum and low volatility) and the individual metrics that make up each factor. You can also filter ETFs using other important price- and fundamental-based variables like expense ratio, active share, fee for active share, fund size, total holdings and implied liquidity. For definitions of the terms within this report, please see our [ETF Factor Report User Guide](#).

This guide will explain the data you can filter ETFs based on using our screener and how to operate it.

Using The Screener

The screener is operated using a series of drop-down boxes and input boxes to the right of them. The top drop-down box includes standard fund data, the second drop-down box allows you to filter based on our style classification of the fund, and the additional drop-down boxes each focus on one investing factor. The final drop-down box on the page allows you to filter based on the minimum and maximum exposure a fund has to the major sectors. The exclude sector funds checkbox allows you to filter out funds that focus on one specific sector or industry.

To add data to your screen, select the criteria you wish to add from the drop-down box and input a minimum and/or maximum in the boxes next to it. Then click add and your criteria will be added to your screen. All the criteria you have added will be listed in the right column on the page. To remove any criteria, click the link containing its name and the x. To remove all your criteria and start over, use the clear all criteria link. To sort the results, click on the column heading you would like to sort by.

Factor Exposures

To filter based on a fund's factor exposure, use the series of factor drop downs. Our factor exposures are calculated on a scale of 1 to 99. ETFs with a factor exposure of 99 have the highest exposure to that factor, while funds rated 1 have the lowest. For example, if you were looking for value funds, a rating of 99 on our value composite score would indicate that the ETF is among the cheapest 1% of all funds in our database using a combined ranking of all the value metrics we follow. If you prefer to search for funds with a single metric such as the PE Ratio, you can do that too.

The search criteria covers six major factor exposures.

Size: Our size exposure calculation looks at both the average and median market cap of a fund's holdings and ranks it relative to all other funds. Funds with high size exposure will contain a significant allocation to small-cap stocks.

Value: The value exposure indicates how cheap the holdings of an ETF are relative to all other ETFs using a series of value metrics. Each ETF is evaluated using the PE Ratio, Price/Sales, Price/Book, Price/Cash

Flow, EV/EBITDA and Shareholder Yield. The combined score is calculated using a combination of all the metrics.

Quality: Quality exposure attempts to measure the quality of the businesses of a fund's holdings. To do this, we use return on equity, return on total capital, gross and net profit margin, and earnings and sales consistency.

Negative Quality: Negative quality attempts to measure a fund's exposure to stocks with potential red flags in their factor exposures. To calculate this, we look for firms with high debt, earnings that are declining, cash flows that are not keeping up with their earnings, and poor price performance. All of these factors are combined to produce our negative quality exposure score. **It is important to note that this is the one factor exposure where higher values are not a good thing. The funds with the highest negative quality exposures will have the highest scores for this factor.**

Momentum: Momentum exposure measures how well a fund's holdings have performed. We measure both price momentum (how much the stocks have gone up relative to their peers) and fundamental momentum (how fast their underlying businesses have been growing). To measure price momentum, we use the 12-1 return, which is a stock's return in the past 12 months, excluding the most recent month. The most recent month is excluded because short-term momentum often tends to reverse, so excluding it provides a better momentum signal. Fundamental momentum is measured using a variety of income statement and balance sheet variables that indicate how much a company's business has been improving.

Low Volatility: It can seem counterintuitive to many investors, but stocks that are less volatile than their counterparts have historically produced comparable or better returns. This means that on a risk-adjusted basis, low volatility stocks have been superior investments. We measure low volatility in two ways. The standard deviation measures the volatility of each of a fund's holdings on a standalone basis. Beta also accounts for a stock's correlation with other stocks. The combined score uses both metrics. Since we are measuring low volatility, funds with high scores for this factor will be the least volatile.

Prebuilt Searches

The screener also includes a series of prebuilt searches that allow you to quickly filter for specific types of ETFs. For example, if you are looking for ETFs with strong momentum, simply select "Most Momentum Exposure" from the drop down. Or if you want to look for value ETFs whose portfolios also contain high quality stocks select "Value with Quality". If you want to see the funds with the highest exposures across all the factors, select "Most Multi-Factor Exposure".