




ZACKS
AdvisorTools

Zacks Mutual Fund Rank

A Powerful Predictor of Performance

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Identify funds with high future return potential.

The Zacks Mutual Fund Rank is our proprietary rating system that can help you find mutual funds poised to outperform your Morningstar category averages.

Unlike other ratings, the Zacks Mutual Fund Rank is predictive, focused on forecasting future price performance and the likely future success of the fund. It is designed in the same way as our proven Zacks Rank for stocks: Each fund is ranked on a scale from #1 (Strong Buy) to #5 (Strong Sell).

If you select funds in a fiduciary capacity, the Zacks Mutual Fund Rank is essential to your process—because it provides a proven, academically based methodology to evaluate, select and track funds with a higher probability of outperforming relative to alternative funds within a specific Morningstar category.

The need for a reliable mutual fund ranking system.

While there are other mutual fund ranking systems available, they do not truly forecast future fund prospects. For instance, Morningstar's widely used ranking accurately predicts fund flows—but not future performance. This represents a huge market inefficiency because investors waste time and resources fruitlessly chasing past performance.

The development of the Zacks Mutual Fund Rank was guided by Dr. Russ Wermers and Dr. Allen Timmermann, two nationally recognized pioneers in this academic area of determinants of fund performance.

As they worked, they made two assumptions:



Funds are not an efficient market—their performance is affected by behavioral and organizational factors unique to funds.



The Zacks Rank for stocks, aggregated to the fund level, is an effective predictor of future fund performance for U.S. equity funds.

How the Zacks Mutual Fund Rank was developed.

Factors identified through academic research, were selected to predict future fund performance and confirmed through Zacks' own databases.

Zacks Stock Rank, aggregated to the fund level, was added as an additional factor for funds holding U.S. equities.

Our proprietary Multivariate Quintile Ranking using predictive factors evenly distributes the ranking across Morningstar fund categories.



The Zacks Mutual Fund Rank has been assigned to 6,000 unique funds (20,000 funds at the class level) on a quarterly basis since 2014.

Zacks ranks mutual funds 1 to 5 within each of Morningstar Fund Categories.

Within each Morningstar Fund Category, we believe that #1 ranked funds will outperform #5 ranked funds in that category.



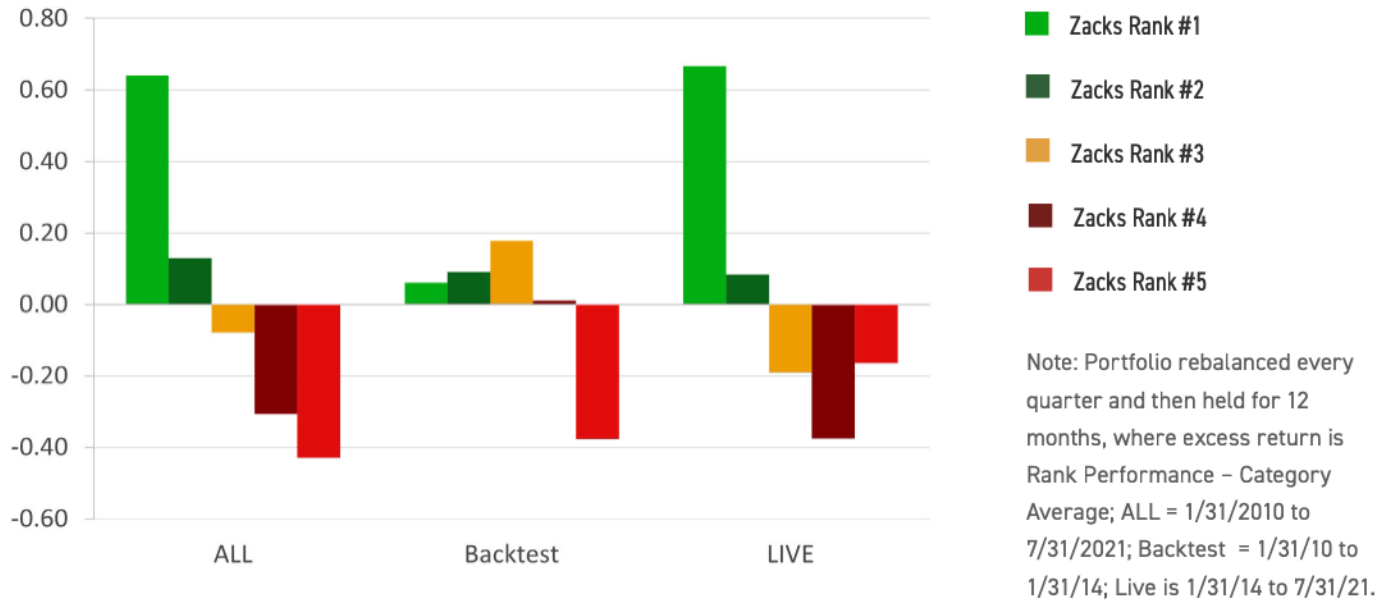
Cracking the Code:

The proven success of the Zacks Mutual Fund Rank.

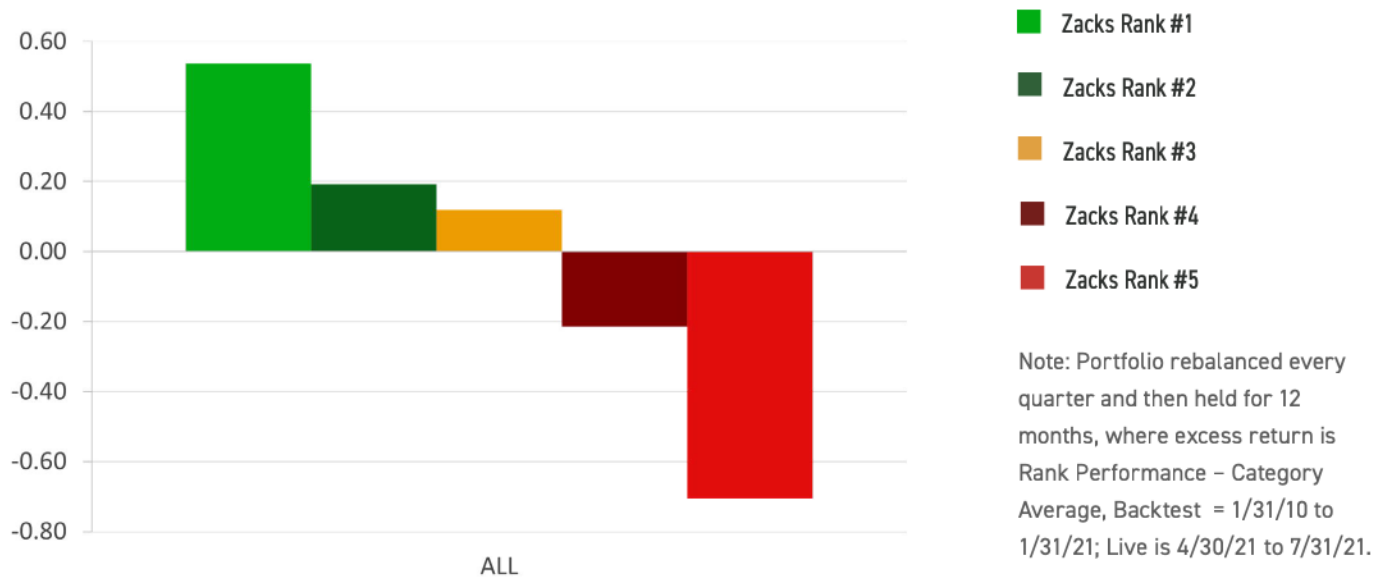
The following charts illustrate the successful prediction capabilities of the Zacks Mutual Fund Rank.

Zacks #1 Ranked Funds Outperform Category Averages

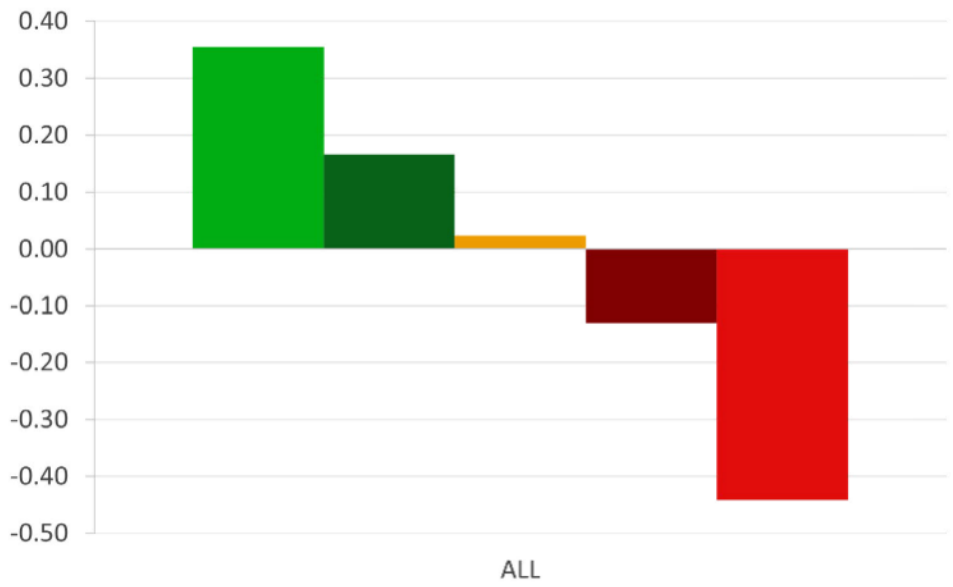
US Stock Following-Year (Net of Expense) Excess Returns by Zacks Rating and Sample Period



International Stock Following-Year (Net of Expense) Excess Returns by Zacks Rating and Sample Period



Fixed Income Following-Year (Net of Expense) Excess Returns by Zacks Rating and Sample Period



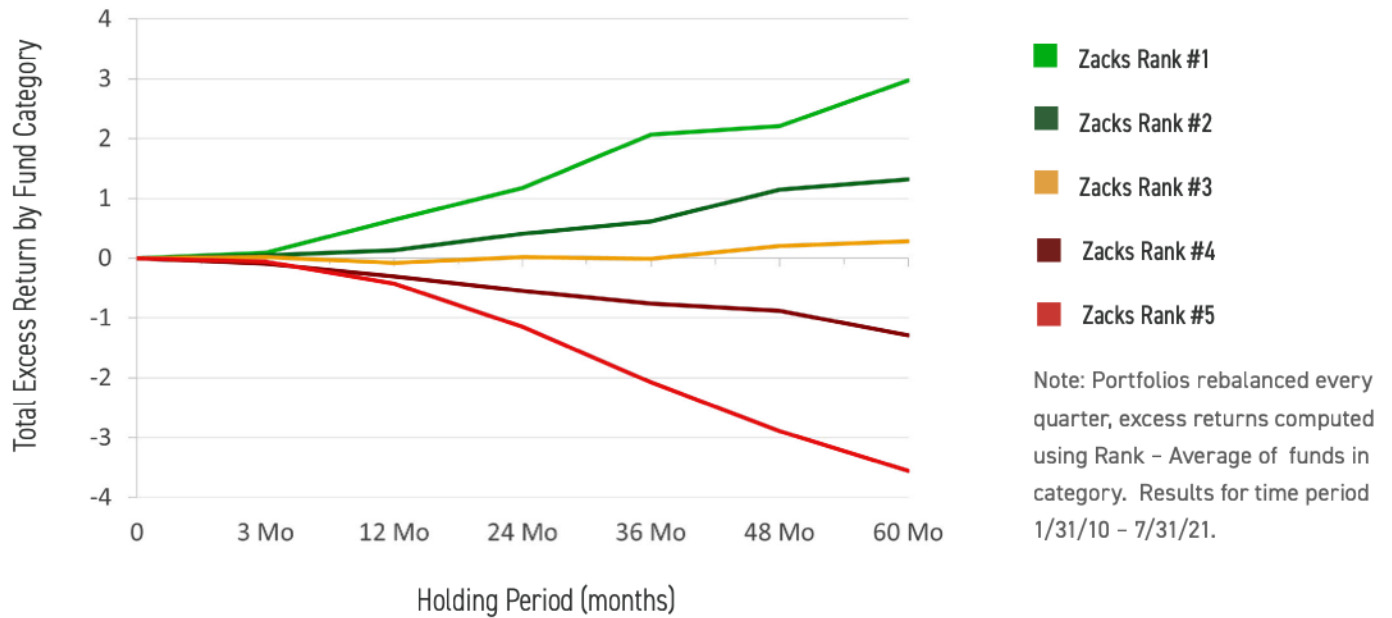
- Zacks Rank #1
- Zacks Rank #2
- Zacks Rank #3
- Zacks Rank #4
- Zacks Rank #5

Note: Portfolio rebalanced every quarter and then held for 12 months, where excess return is Rank Performance - Category Average, Backtest = 1/31/10 to 7/31/21.

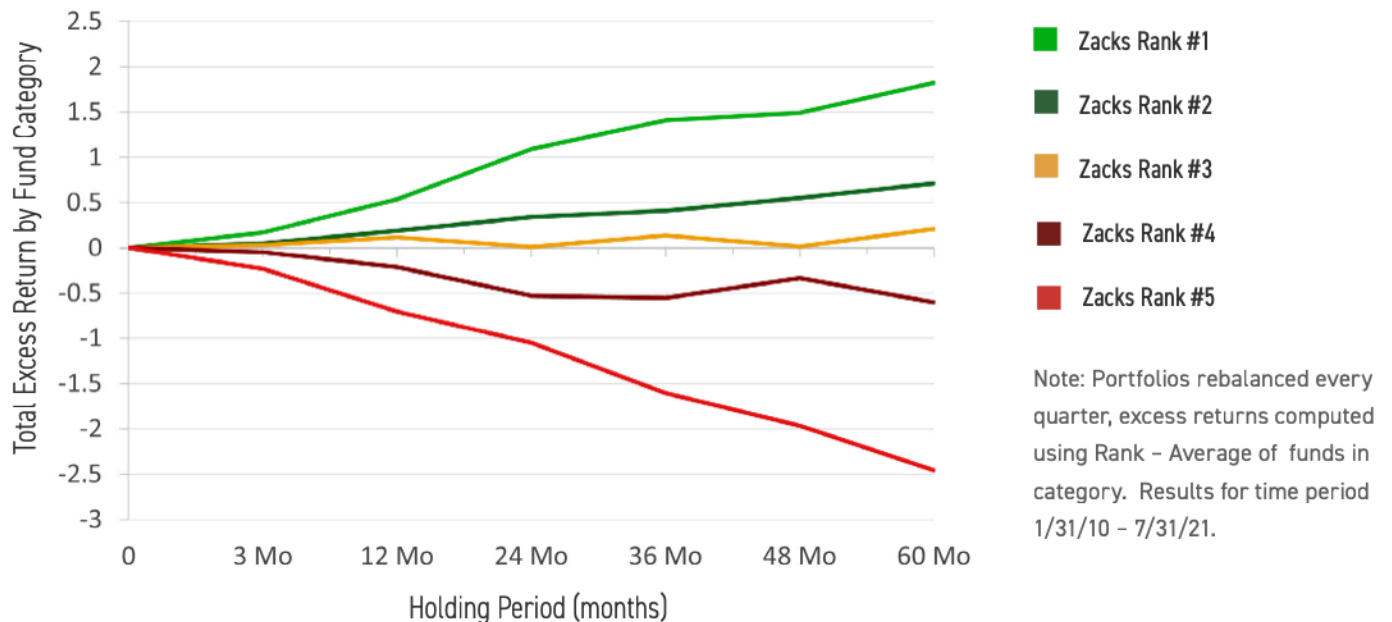
Performance Persistence

Outperformance is durable for 4-5 years, does not reverse for longer holding periods

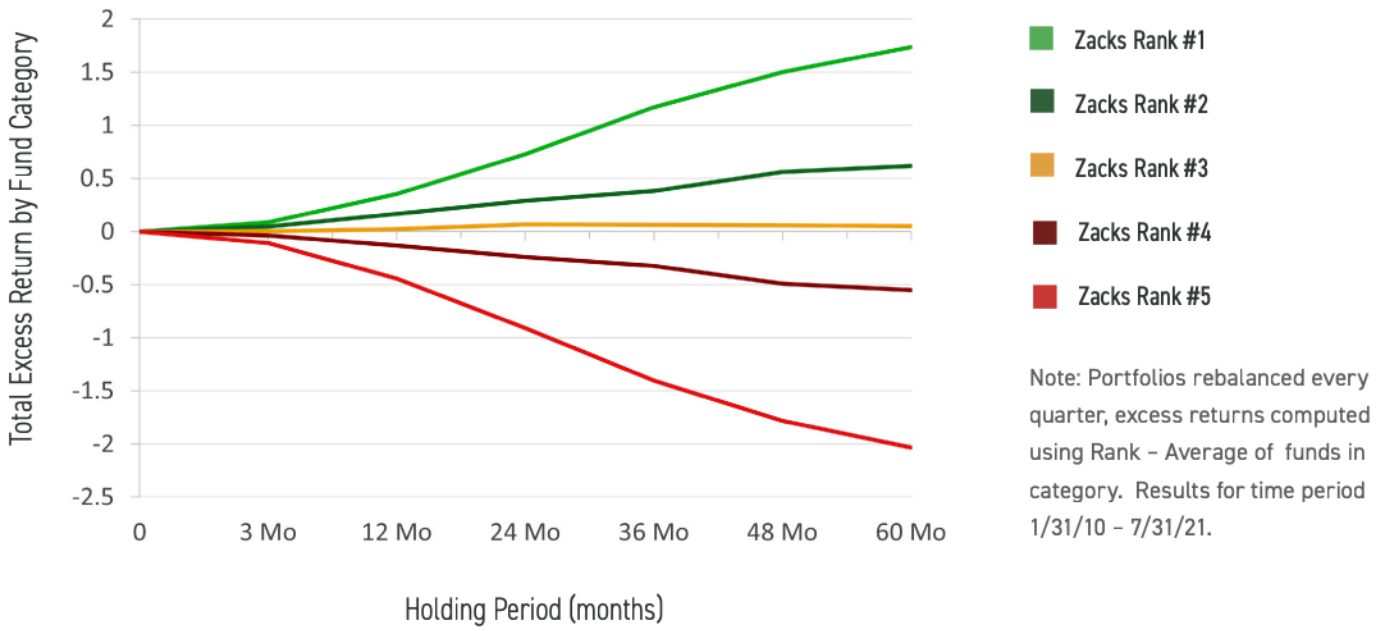
US Stock Performance Persistence: Average Cumulative Excess Returns by Holding Period



International Stock Performance Persistence: Average Cumulative Excess Returns by Holding Period



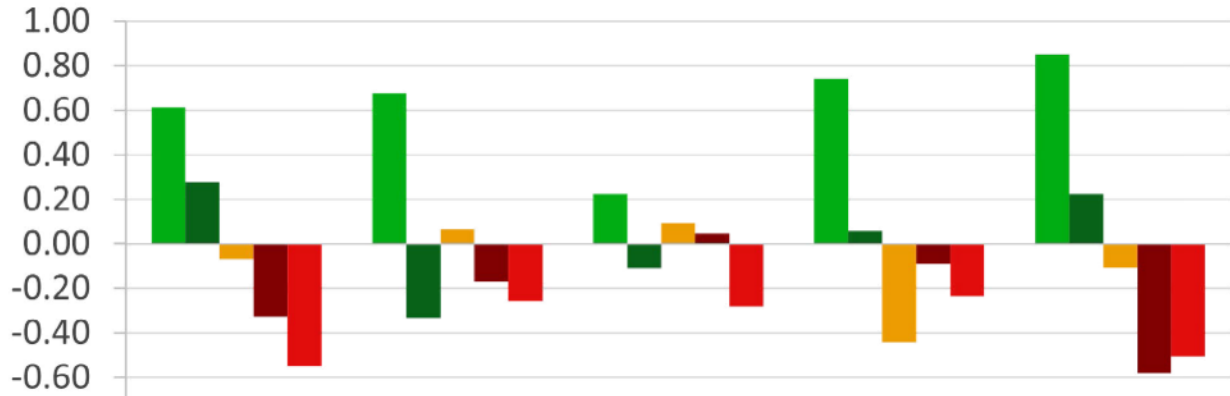
Fixed Income Performance Persistence: Average Cumulative Excess Returns by Holding Period



Zacks Mutual Fund Rank Performance

Excess returns are positive in all broad **style** categories

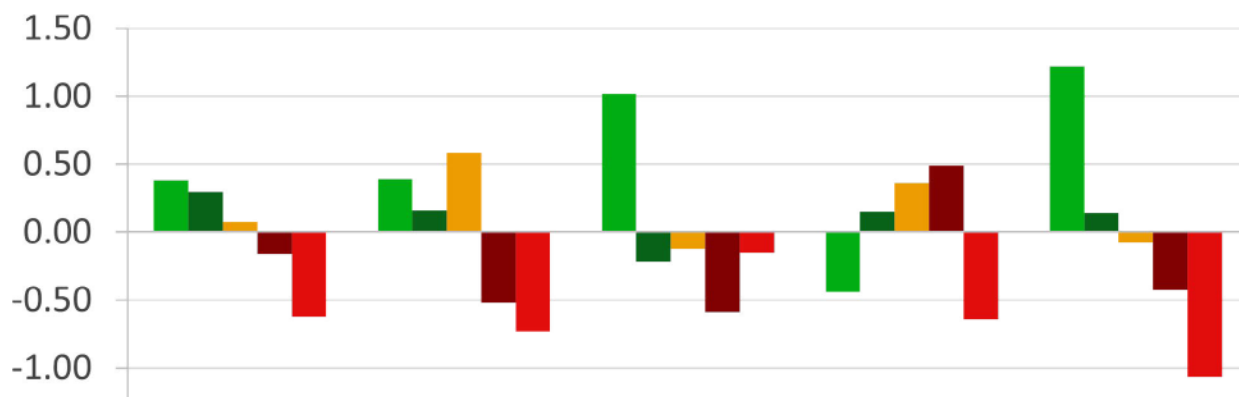
US Stock Following-Year (Net of Expense) Excess by Zacks Rating and Style Group



	Large-Cap Funds	Small-Cap Funds	Growth Funds	Value Funds	Sector
■ Zacks Rank #1	0.61	0.68	0.22	0.74	0.85
■ Zacks Rank #2	0.27	-0.33	-0.11	0.06	0.22
■ Zacks Rank #3	-0.07	0.06	0.09	-0.44	-0.11
■ Zacks Rank #4	-0.33	-0.17	0.05	-0.09	-0.58
■ Zacks Rank #5	-0.55	-0.26	-0.28	-0.24	-0.50

Note: Portfolio rebalanced every quarter, held for 12 months where excess returns computed using Rank Return – Average of Funds in Category. Results for time period 1/31/2010 – 7/31/2021.

International Stock Following-Year (Net of Expense) Excess by Zacks Rating and Style Group



	Large-Cap Funds	Small-Cap Funds	Growth Funds	Value Funds	Region
Zacks Rank #1	0.38	0.39	1.02	-0.44	1.22
Zacks Rank #2	0.30	0.16	-0.22	0.15	0.14
Zacks Rank #3	0.07	0.59	-0.12	0.36	-0.08
Zacks Rank #4	-0.16	-0.52	-0.59	0.49	-0.43
Zacks Rank #5	-0.62	-0.73	-0.15	-0.64	-1.07

Note: Portfolio rebalanced every quarter, held for 12 months where excess returns computed using Rank Return – Average of Funds in Category. Results for time period 1/31/2010 – 7/31/2021.

Excess returns are positive in all broad **sector** categories

Fixed Income Following-Year (Net of Expense) Excess by Zacks Rating and Style Group

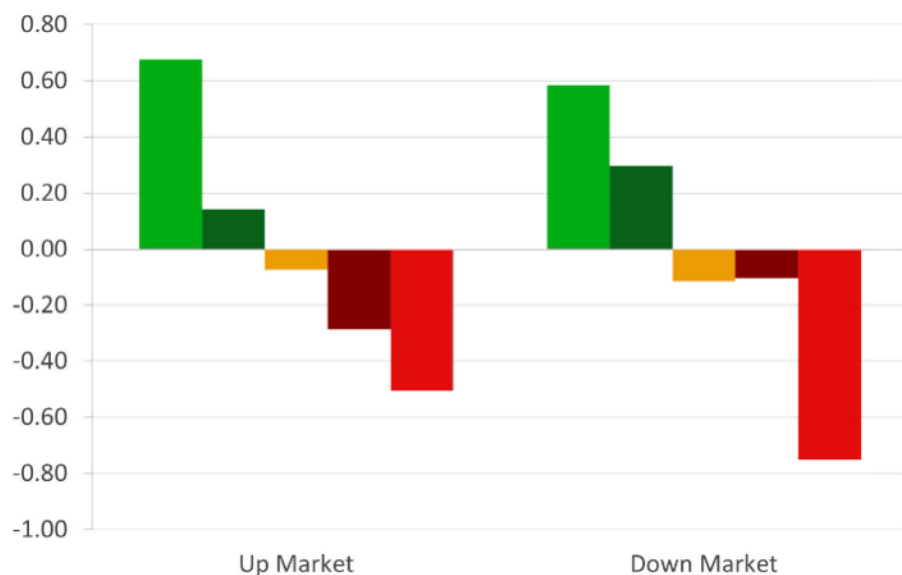


Note: Portfolio rebalanced every quarter, held for 12 months where excess returns computed using Rank Return – Average of Funds in Category. Results for time period 1/31/2010 – 7/31/2021.

Zacks Mutual Fund Rank Works in Up and Down Markets

Excess returns are robust to different market environments

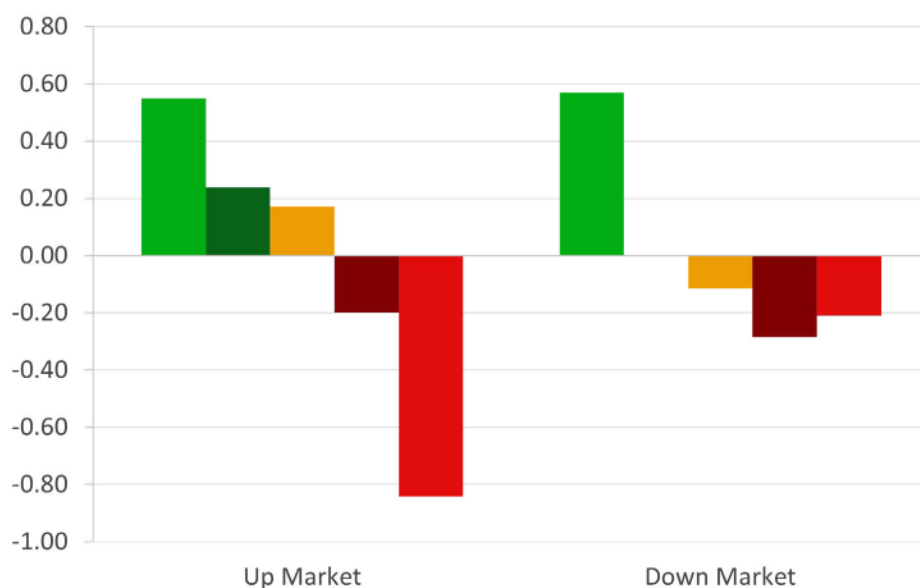
US Stock Following-Year (Net of Expense) Excess by Zacks Rating and Sample Period for US Equity Funds



- Zacks Rank #1
- Zacks Rank #2
- Zacks Rank #3
- Zacks Rank #4
- Zacks Rank #5

Note: Portfolio rebalanced every quarter and held for 1 year, excess returns computed using Rank - Average of funds in category. Results for time period 1/31/2010 - 7/31/2021.

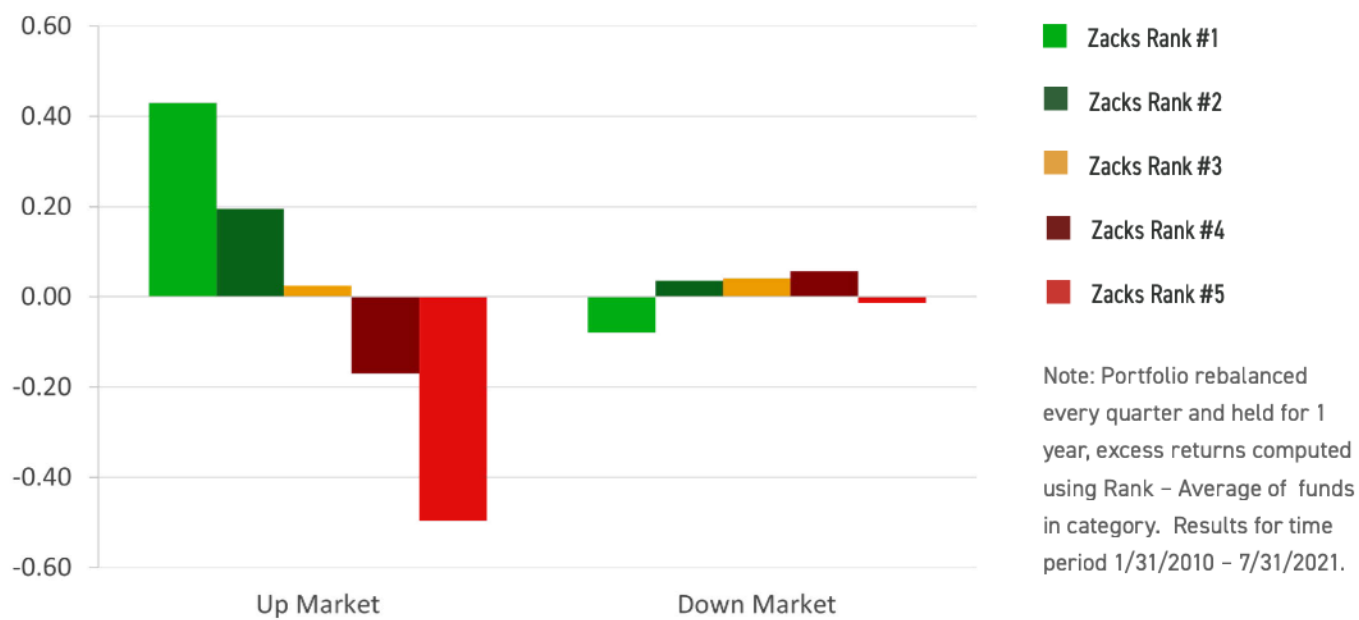
International Stock Following-Year (Net of Expense) Excess by Zacks Rating and Sample Period for Non-US Equity Funds



- Zacks Rank #1
- Zacks Rank #2
- Zacks Rank #3
- Zacks Rank #4
- Zacks Rank #5

Note: Portfolio rebalanced every quarter and held for 1 year, excess returns computed using Rank - Average of funds in category. Results for time period 1/31/2010 - 7/31/2021.

Fixed Income Following-Year (Net of Expense) Excess by Zacks Rating and Sample Period for Fixed Income Funds



Why the Zacks Mutual Fund Rank is essential for financial advisors.

Because the Zacks Mutual Fund Rank can reliably forecast funds most likely to outperform their category average, it boosts your ability to identify promising funds while weeding out likely underperformers.

Here are some of the key takeaways of the Zacks Mutual Fund Rank:

- » Exposure to #1 ranked funds is just as important as avoiding #5 ranked funds.
- » Zacks #1 and #2 ranked funds stay BUY rated with 80% of those not changing in any quarter to quarter time period.
- » Zacks #1 and #2 ranked fund spread returns are durable for up to 5 years or more.
- » Over the long term, the average return spread between the portfolio of Zacks #1 ranked funds versus #5 ranked funds, in most categories is in excess of 1% annually.

For those who have a fiduciary duty to clients, the Zacks Mutual Fund Rank provides an indispensable tool to add to your investment process.




ZACKS AdvisorTools

Stay Ahead of the Market

Now that you've seen how effective the Zacks Mutual Fund Rank is for predicting future performance, find out how to incorporate it into your own selection process. Contact us for a free demo or to get started immediately.



Contact Us

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