

# ADAPTING TO MARKET SIGNALS WITH OUR GROWTH AND MOMENTUM FUND

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11/24/2021

[WisdomTree's U.S. Growth & Momentum Fund \(WGRO\)](#) recently completed its sixth rebalance since launching in June 2021.

The Fund is currently WisdomTree's second top-performing strategy quarter-to-date (+12.7%) and the fifth top-performing strategy since its launch date (+12.9%).<sup>1</sup> Notably, the Fund has outperformed the [S&P 500 Index](#) by 1.87% and modestly outperformed the [Russell 1000 Growth Index](#) by 0.16% since inception.<sup>2</sup>

**Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Standardized performance data for the most recent quarter and month-end are available [here](#).**

For background, [WGRO](#) seeks to capture the upside of an aggressive [growth](#) portfolio, with lower drawdowns and [volatility](#) that often accompanies growth investing.

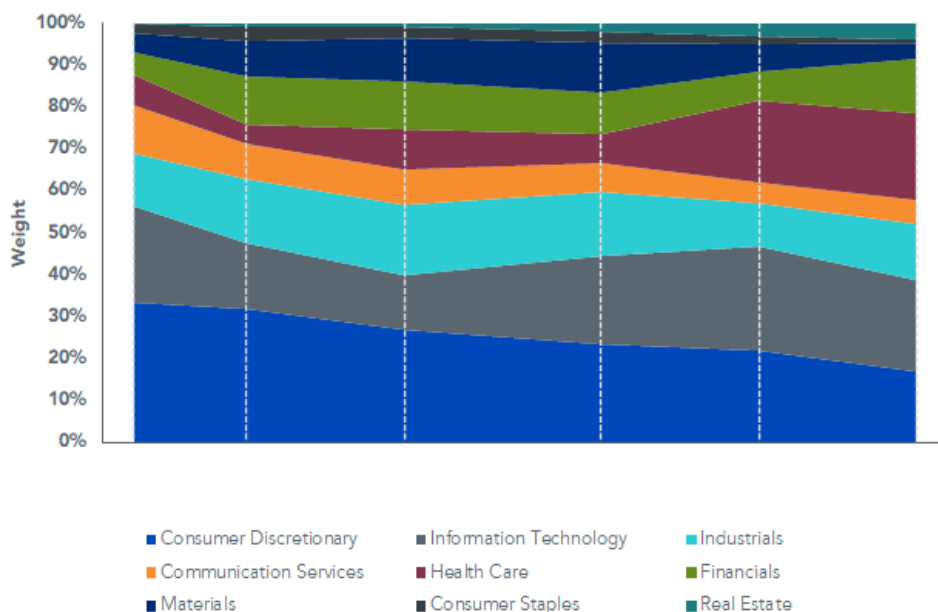
[WGRO](#) seeks to track the price and yield performance, before fees and expenses, of the [O'Neil Growth Index](#), which was developed by tenured growth investment manager O'Neil Global Advisors.

The strategy uses a combination of four proprietary O'Neil factors that seek to time entry points into securities during small pullbacks and to avoid holding stocks that are overextended. Those four factors are:

- **Pullback** – a technical factor that measures a stock's long-term momentum and short-term mean reversion characteristics, targeting stable growth stocks with positive recent price action
- **Volatility** – aims to lower the long-term volatility of the portfolio
- **Datagraph Rating™** – a composite growth characteristic to target companies exhibiting market leadership and solid fundamentals
- **Hotness** – a measure of a stock's recent change in volume compared with historical averages, which seeks to lower the volatility of the portfolio and to avoid stocks with high short-term speculative interest

Different from the many momentum ETF competitors that rebalance semiannually or quarterly, [WGRO](#) rebalances monthly to adapt to changing market signals.

## Sector Exposure

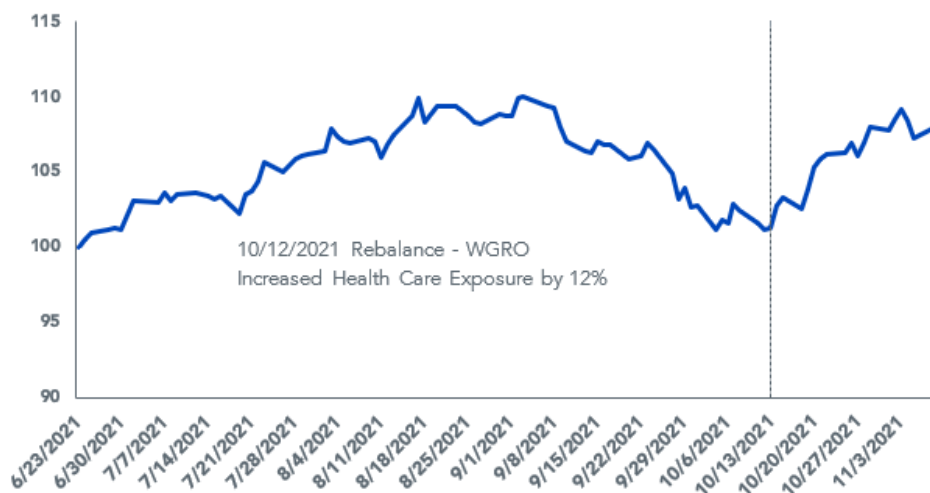


Sources: WisdomTree, FactSet, for the period 6/23/21–11/9/21.

Over the past six rebalance cycles, [WGRO](#) has had notable shifts in sector allocations:

- Since inception, [WGRO](#) has maintained an over-weight allocation to the Consumer Discretionary sector relative to the S&P 500 and Russell 1000 Growth Indexes. [WGRO](#) has incrementally trimmed its exposure at each rebalance from 33% at inception to 17% in November. Over this same period, Consumer Discretionary was the second and fourth best-performing sector within the S&P 500 Growth and Russell 1000 Growth Indexes, respectively.<sup>3</sup>
- [WGRO](#) significantly added to its Health Care exposure at the October rebalance during a well-timed slump in Health Care stocks, as measured by the [S&P 500 Health Care Index](#). The Fund added 10 new Health Care names that ranked highly on the Pullback factor.

#### S&P 500 Health Care Index



Sources: WisdomTree, Bloomberg, for the period 6/23/21–11/9/21.

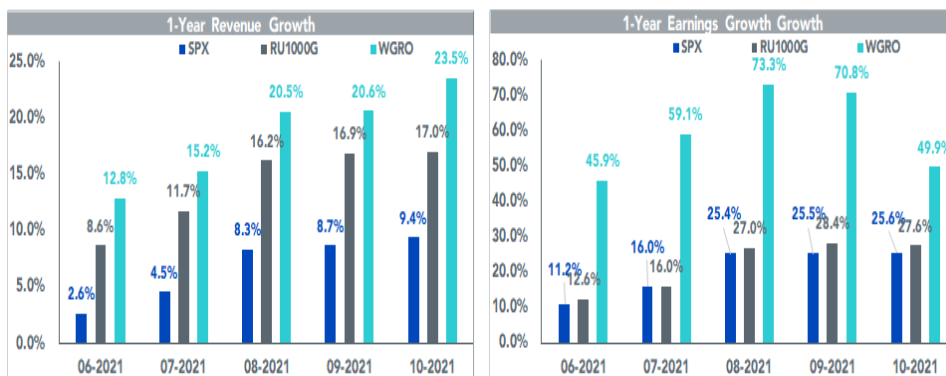
- [WGRO](#) has also made a net addition of 7% to its Financials exposure since inception. At the most recent rebalance, [WGRO](#) added four new Financials stocks that ranked highly on both the Pullback and Datagraph factors. Over this same period, Financials stocks within the S&P 500 Index have been the third top-performing sector group (+11.5%).<sup>4</sup>

## Attractive Valuation and Fundamentals

Quarter-to-date, [WGRO](#) has managed to outperform both the S&P 500 and Russell 1000 Growth Indexes while maintaining fundamental growth rates and a discounted valuation.

[WGRO](#) has consistently generated revenue growth ~4% above the Russell 1000 Growth Index and 10% above the S&P 500 Index.

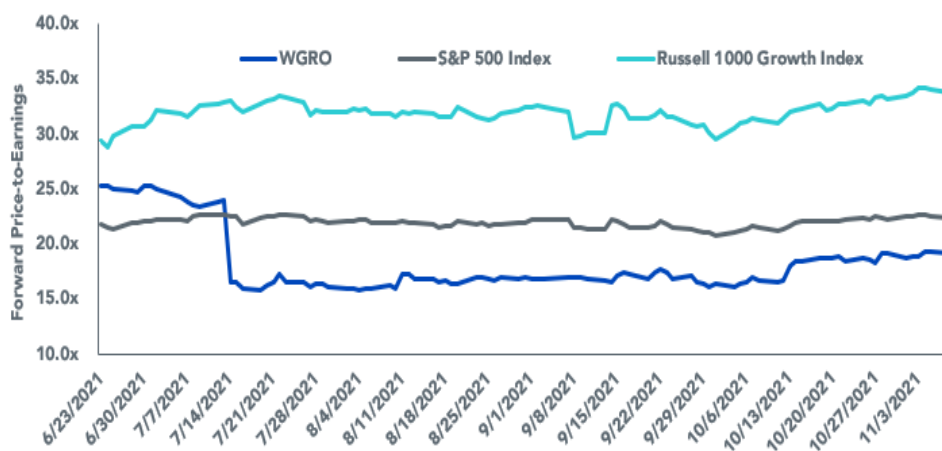
Importantly, the strong revenue growth generated by [WGRO](#) is also observed in bottom line earnings growth, which speaks to the operational efficiency of the companies captured in the basket. There is a significant gap between the earnings growth generated by [WGRO](#) and the benchmark Indexes. On average, earnings growth for WGRO is ~40 percentage points higher than those companies included in the S&P 500 or Russell 1000 Growth Indexes.



Sources: WisdomTree, FactSet, as of 11/9/21.

[WGRO](#) is currently attractively valued at 19.2x forward [price-to-earnings \(P/E\)](#) relative to 22.5x and 33.8x for the S&P 500 and Russell 1000 Growth Indexes, respectively. This [valuation discount](#) is consistent with the historical median discount relative to these benchmarks—[WGRO](#) has been valued roughly 5 and 15 [forward P/E](#) turns below the S&P 500 and Russell 1000 Growth Indexes, respectively.<sup>5</sup>

## Valuation



Sources: WisdomTree, FactSet, for the period 6/23/21–11/9/21.

The fundamental and valuation differentials are driven in large part by the composition of [WGRO](#)—its top holdings are less concentrated and quite different from what is typically captured by large-cap U.S. growth benchmarks.

Top 10 Holdings					
WGRO		S&P 500		Russell 1000 Growth	
Omniceil, Inc.	2.0%	Microsoft Corp.	6.3%	Microsoft Corp.	10.7%
CrowdStrike Holdings, Inc.	2.0%	Apple, Inc.	5.9%	Apple, Inc.	10.0%
Stifel Financial Corp.	2.0%	Amazon.com, Inc.	3.8%	Amazon.com, Inc.	6.5%
WESCO International, Inc.	1.9%	Alphabet, Inc.	2.2%	Tesla, Inc.	3.7%
Western Alliance Bancorp.	1.9%	Tesla, Inc.	2.2%	Meta Platforms, Inc.	3.4%
AutoNation, Inc.	1.9%	Alphabet, Inc.	2.1%	Alphabet, Inc.	3.2%
Avantor, Inc.	1.9%	Meta Platforms, Inc.	2.0%	Alphabet, Inc.	3.0%
Waters Corp.	1.9%	NVIDIA Corp.	1.9%	NVIDIA Corp.	3.0%
Bio-Techne Corp.	1.9%	Berkshire Hathaway, Inc.	1.3%	The Home Depot, Inc.	1.7%
AMERCO	1.9%	JPMorgan Chase & Co.	1.3%	Visa, Inc.	1.6%
<b>Top 10 Weight</b>	<b>19.4%</b>	<b>Top 10 Weight</b>	<b>29.0%</b>	<b>Top 10 Weight</b>	<b>46.7%</b>

Sources: WisdomTree, FactSet, as of 11/9/21. Holdings and weights are subject to change.

## Positioning **WGRO**

Given the strategy's higher fundamental growth and lower valuation, [WGRO](#) may be of interest to investors that want to allocate to mid- and large-capitalization U.S. growth stocks at discounted multiples. The Fund's monthly rebalance schedule also may make it attractive to investors seeking to allocate to a momentum strategy that responds more frequently to changes in the market environment.

<sup>1</sup>Source: WisdomTree. Performance at NAV for the periods 9/30/21–11/22/21 and 6/23/21–11/22/21.

<sup>2</sup>Sources: WisdomTree, Bloomberg, for the period 6/23/21–11/9/21. WGRO performance at NAV.

<sup>3</sup>Sources: WisdomTree, Bloomberg, for the period 6/24/21–11/9/21. Consumer Discretionary stocks within the S&P 500 and Russell 1000 Growth Indexes returned 14.3% and 14.75%, respectively.

<sup>4</sup>Sources: WisdomTree, Bloomberg, for the period 6/23/21–11/9/21.

<sup>5</sup>Sources: WisdomTree, FactSet, for the period 6/23/21–11/9/21.

## Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. The Fund invests in mid- and large-capitalization companies that provide exposure to a portfolio of high growth and momentum U.S. exchange-listed companies. Securities that exhibit momentum characteristics may be more volatile than the market as a whole. Growth stocks, as a group, may be out of favor with the market and underperform value stocks or the overall equity market. The Fund may experience high portfolio turnover in connection with the rebalancing or adjustment of its Index. The Fund invests in the securities included in, or representative of, its Index regardless of their investment merit. The Fund does not attempt to outperform its Index or take defensive positions in declining markets, and the Index may not perform as intended. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

## Related Blogs

+ [Introducing the WisdomTree Growth & Momentum Fund](#)

For more investing insights, check out our [Economic & Market Outlook](#)

View the online version of this article [here](#).

## **IMPORTANT INFORMATION**

**U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.**

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

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You cannot invest directly in an index.

## DEFINITIONS

**S&P 500 Index** : Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.

**Russell 1000 Growth Index** : A measure of the large-cap growth segment of the U.S. equity universe, selecting from the Russell 1000 Index.

**Growth** : Characterized by higher price levels relative to fundamentals, such as dividends or earnings. Price levels are higher because investors are willing to pay more due to their expectations of future improvements in these fundamentals.

**Volatility** : A measure of the dispersion of actual returns around a particular average level. 

**O'Neil Growth Index** : An index comprised of mid- and large-cap companies that provide exposure to high growth and momentum U.S. exchange-listed companies.

**S&P 500 Health Care Index** : Market capitalization weighted measure of the performance of companies within the S&P 500 Index that are in the health care sector.

**Price-to-earnings (P/E) ratio** : Share price divided by earnings per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested.

**Valuation** : Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.

**Discount** : When the price of an ETF is lower than its NAV.

**Forward P/E ratio** : Share price divided by compilation of analyst estimates for earnings-per-share over the coming 12-month period. These are estimates that may be subject to revision or prove to be incorrect over time.