
TIME TO MOVE FROM FAANGS TO SEPTICS?

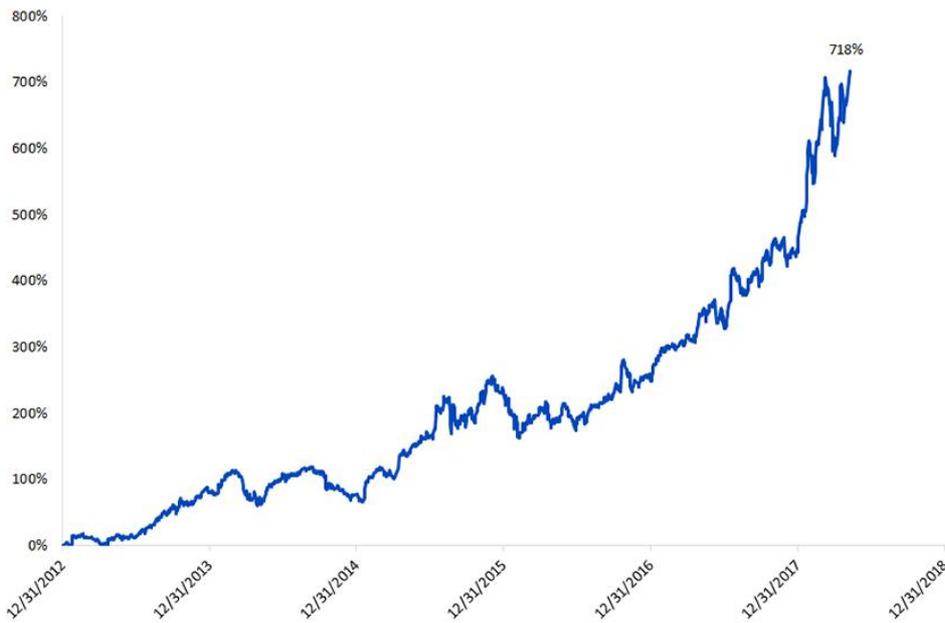
Jeff Weniger – Head of Equity Strategy
06/11/2018

A half-century ago, when investors fell in love with the “Nifty 50,” the darling mega-caps of the era that many advised to buy and hold forever, they at least had the ability to choose from among companies that spanned numerous industries (components such as PepsiCo, Schlumberger, Pfizer¹ and so on were in completely different businesses). Not so with today’s “nifty” group, the FAANG stocks: Facebook, Amazon, Apple, Netflix and Google’s parent, Alphabet. And being in or out of them could be critical for U.S. equity success in coming years.

It’s been a great run thus far for the five “new economy” dynamos, their performance over the last half-decade nothing short of stellar. We unscientifically compiled a list of non-FAANG industries with the sole purpose of coming up with an off-putting acronym. The “SEPTICS” stocks are the anti-FAANGS—companies that have not taken the same road to riches in recent years. Comprising Specialty Retail, Electric Utilities, Packaged Foods, Tobacco, Insurance, Chemicals and Soft Drinks, this motley crew is the “who’s who” of industries that give little ammunition to braggarts. Between them, they encompass a not insignificant 83 of the [S&P 500’s](#) companies and 11.2% of the Index.²

This basket not only didn’t lose money but rallied more than 60% from December 31, 2012, to May 10, 2018. No matter; the FAANG stocks beat it by more than 700 *percentage* points (figure 1).

Figure 1: Cumulative Return Differential: FAANGs minus SEPTICS



Sources: WisdomTree, Bloomberg, as of 5/10/18. Past performance is not indicative of future results.

That kind of run is a reason that one out of every eight dollars in the S&P 500 is now in the FAANG five. But the truth is that we could have pulled almost any combination of five or six industries, concocted a funny acronym like “SEPTICS” and the FAANG stocks still probably would have crushed it. It wouldn’t have mattered if SEPTICS returned 60% or 160% or 260%. Even the last figure would have handily outpaced the S&P’s 91% run-up but would have lagged the FAANG stocks.

FAANGS in WisdomTree

Figure 2 shows the [FAANG holdings of WisdomTree’s six major U.S. equity ETFs](#), originally compiled in a prior blog post. Aside from the [WisdomTree U.S. Earnings 500 Fund \(EPS\)](#), which is our [earnings-weighted](#) 500-stock answer to the S&P, many of our ETFs shun the FAANG stocks entirely or nearly so.

Figure 2: WisdomTree ETFs’ FAANG Exposure

Ticker	SPX Index	EPS	DLN	DGRW	DHS	QSY	USMF
Name	S&P 500 Index	WisdomTree U.S. Earnings 500 Fund	WisdomTree U.S. LargeCap Dividend Fund	WisdomTree U.S. Quality Dividend Growth Fund	WisdomTree U.S. High Dividend Fund	WisdomTree U.S. Quality Shareholder Yield Fund	WisdomTree U.S. Multifactor Fund
Facebook	1.87%	1.54%	--	--	--	--	--
Apple	4.00%	5.29%	3.65%	4.33%	--	0.51%	--
Amazon	2.81%	0.27%	--	--	--	--	--
Netflix	0.61%	0.08%	--	--	--	--	--
Alphabet (Google)	2.78%	2.16%	--	--	--	--	--
Total	12.07%	9.33%	3.65%	4.33%	0.00%	0.51%	0.00%

Sources: WisdomTree, Bloomberg, as of 5/10/18. Holdings subject to change.

This is where WisdomTree’s rules-based strategies come into play; if the rules don’t identify Amazon, Amazon is out. And if they aren’t picking up Facebook either, Facebook gets a “zero.” Remember, if it weren’t for the 1990s [tech bubble](#) and mass movements before it, there wouldn’t even be a WisdomTree and you wouldn’t be reading this post. That’s because that era’s market distortions catalyzed WisdomTree’s founders to create ETFs that were weighted by fundamental metrics. So if the [WisdomTree U.S. Quality Divide](#)

[nd Growth Fund \(DGRW\)](#) is 8 percentage points under-weight the FAANG stocks, we will let time be DGRW's judge. The [WisdomTree U.S. Multifactor Fund \(USMF\)](#) and the [WisdomTree U.S. High Dividend Fund \(DHS\)](#) are even bolder, owning none of them, a 12% under-weighting. Time will judge them too.

In or Out

Maybe the FAANG stocks will keep growing until they take over the universe. But if they don't, there is plenty of precedent for seemingly unstoppable stocks to fall from grace. WisdomTree's U.S. equity ETFs are by and large avoiding the FAANG stocks. FAANG skeptics, seek "SEPTICS."

¹Please click on the following WisdomTree ticker symbols to see each Fund's holdings percentage of PepsiCo, Schlumberger and Pfizer: [EPS](#), [DLN](#), [QSY](#), [USMF](#), [DHS](#), [DGRW](#).

²Sources: WisdomTree, Bloomberg, as of 5/10/18.

Important Risks Related to this Article

Statements concerning financial market trends are based on current market conditions, which will fluctuate. References to specific securities and their issuers are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations to purchase or sell such securities.

There are risks associated with investing, including possible loss of principal. Funds focusing their investments on certain sectors may be more vulnerable to any single economic or regulatory development. This may result in greater share price volatility. Due to the investment strategy of some of these Funds, they may make higher capital gain distributions than other ETFs. When a Fund is actively managed, the Fund's investment process is expected to be heavily dependent on quantitative models, and the models may not perform as intended. Please read each 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.

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.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only. 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.

Earnings-weighted: Earnings for all constituents in an index are added together, and individual constituents are subsequently weighted by their proportional contribution to that total.

Tech Bubble: Market collapse between 1999-2001 that was led by technology stock.