

IS THE NASDAQ 100 THE BEST PROXY FOR MEGA-CAP GROWTH STOCKS?

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The [Nasdaq 100 Index](#) is considered by many as the default benchmark for [growth](#) stocks.

The methodology is straightforward—the 100 largest non-financial companies by market capitalization listed on the Nasdaq Exchange. Securities are weighted by modified [market cap](#).

One of the drawbacks to this simplicity for a growth benchmark is that mature, slow-growth companies can populate the index because of the absence of fundamental selection criteria.

In our view, WisdomTree has created a better way to capture growth—the [WisdomTree U.S. Quality Growth Index](#). Since its launch near the end of 2022, it has outperformed the Nasdaq 100 while being more directly targeted to high-growth, high-profitability companies.

Cumulative Index Total Returns since 11/30/22



Sources: WisdomTree, Russell, Nasdaq, S&P, 11/30/22–2/9/24. You cannot invest directly in an index. Past performance is not indicative of future returns.

The returns for both the WisdomTree U.S. Quality Growth Index and Nasdaq 100 have, unsurprisingly, benefitted from a positive market backdrop for growth over the last 15 months.

WisdomTree's Index reconstitutes on a semi-annual basis each June and December, refreshing its exposure to companies with the fundamental characteristics of high profitability and high growth.

Like the Nasdaq 100, the WisdomTree Index selects 100 securities. The Indexes hold 37 securities in common with a common holdings score (or overlap) of 62%.

WisdomTree U.S. Quality Growth Index and Nasdaq 100 Index (Benchmark) Holdings Overlap

Overlap by Count		
Securities in WisdomTree Index	Constituent Overlap Count	Securities in Benchmark
100	37	100

Overlap by Weight		
Common Securities Weight in WT Index	Common Holdings Score	Common Securities Weight in Benchmark Index
74.6%	62.1%	65.2%

Sources: WisdomTree, Nasdaq, as of 1/31/24. You cannot invest directly in an index.

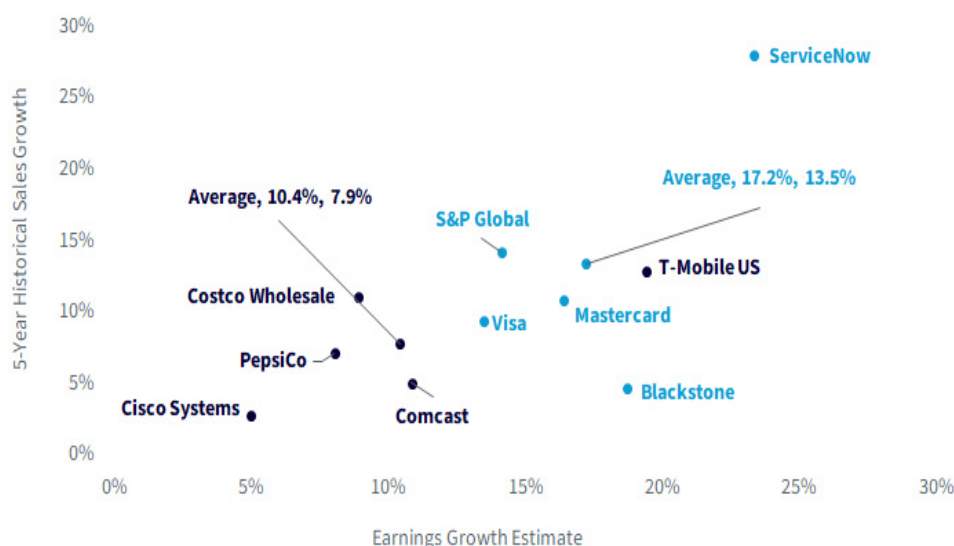
To illustrate the emphasis on earnings growth/sales growth characteristics for the WisdomTree Index, we highlight two sets of companies in the below chart:

- **Light blue dots**—Five largest holdings in the WisdomTree U.S. Quality Growth Index that are not included in the Nasdaq 100 due to listing on the New York Stock Exchange:
 - Mastercard, Visa, S&P Global, Blackstone, ServiceNow
- **Dark blue dots**—Five largest holdings in the Nasdaq 100 that are not included in the WisdomTree U.S. Quality Growth Index (due to profitability/growth screens):
 - Costco Wholesale, PepsiCo, Comcast, Cisco Systems, T-Mobile US

A few observations:

- **Higher growth in stocks unique to WisdomTree**—The average earnings and sales growth for companies *included* in the WisdomTree Index but *excluded* from the Nasdaq 100 is 17.2% and 13.5%, respectively
 - ServiceNow, which has a market cap over \$150 billion, provides a good example of the type of fast-growth company *excluded* from the Nasdaq 100 because of its listing on the NYSE—it has grown sales 28% annualized over the last five years, and is projected by analysts to grow earnings by over 20% over the next several years
- **Lower growth in stocks unique to Nasdaq**—The average earnings and sales growth for companies *included* in the Nasdaq 100 but *excluded* from WisdomTree Index is just 10.4% and 7.9%, respectively
 - Cisco Systems, on the other hand, has grown its sales at just 3% annualized and analysts expect earnings growth of just 5% going forward. Though not a growth company based on traditional fundamental metrics, the company is *included* in the Nasdaq 100 because of its market cap and listing on the Nasdaq

Growth Characteristics



Sources: WisdomTree, Nasdaq, FactSet, as of 1/31/24. Earnings growth estimate based on median analyst earnings growth estimates over the next 1-3 year period. Dark blue dots relate to companies included in the Nasdaq 100 that are not included in the WisdomTree U.S. Quality Growth Index. Light blue dots relate to companies included in the WisdomTree U.S. Quality Growth Index that are not included in the Nasdaq 100. You cannot invest directly in an index.

A Better Approach to Growth: The WisdomTree U.S. Quality Growth Fund

The WisdomTree U.S. Quality Growth Index is a market-cap weighted Index that consists of companies with [quality](#) and growth characteristics. The top 500 U.S. companies by market cap—listed on any of the major U.S. exchanges—are ranked on a composite score of two fundamental factors: growth and quality, which are equally weighted.

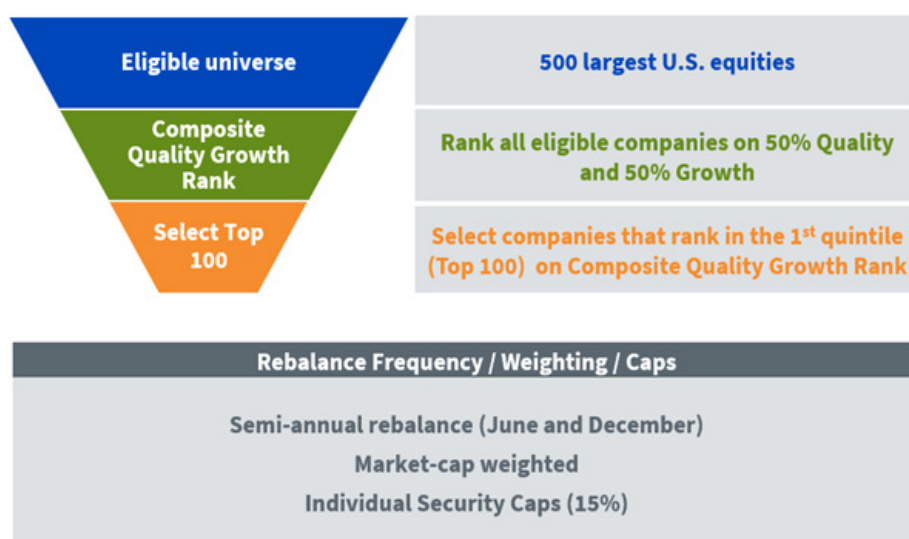
The Index is comprised of the 100 U.S. companies (the first quintile) with the highest composite scores.

Growth factor: The growth factor is determined by a company's ranking based on a 50% weight in its median analyst earnings growth forecast, a 25% weight in its trailing five-year EBITDA (i.e., earnings before interest, taxes, depreciation and amortization) growth and a 25% weight in its trailing five-year sales growth.

Quality factor: The quality factor is determined by a company's ranking based on a 50% weight to each of its trailing three-year average return on equity and trailing three-year average return on assets.

The [WisdomTree U.S. Quality Growth Fund](#) was launched in December 2022 to seek to track the price and yield performance, before fees and expenses, of the WisdomTree U.S. Quality Growth Index.

Investment Process



Important Risks Related to this Article

There are risks associated with investing, including the possible loss of principal. Growth stocks, as a group, may be out of favor with the market and underperform value stocks or the overall equity market. Growth stocks are generally more sensitive to market movements than other types of stocks. The Fund is non-diversified and, as a result, changes in the market value of a single security could cause greater fluctuations in the value of Fund shares than would occur in a diversified fund. 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.

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

Nasdaq 100 Index : Includes 100 of the largest domestic and international non-financial companies listed on The Nasdaq Stock Market based on market capitalization. The Index reflects companies across major industry groups including computer hardware and software, telecommunications, retail/wholesale trade and biotechnology. It does not contain securities of financial companies, including investment companies.

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.

Market Capitalization : Market cap = share prices x number of shares outstanding. Firms with the highest values receive the highest weights in approaches designed to weight firms by market cap.

Quality : Characterized by higher efficiency and profitability. Typical measures include earnings, return on equity, return on assets, operating profitability as well as others. This term is also related to the Quality Factor, which associates these stock characteristics with excess returns vs the market over time.