

THE DISRUPTION SONG

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This article is relevant to financial professionals who are considering offering Model Portfolios to their clients. If you are an individual investor interested in WisdomTree ETF Model Portfolios, please inquire with your financial professional. Not all financial professionals have access to these Model Portfolios.

Change is on its way now.

Nothing's staying where it used to be

Can't you feel things moving?

Never where we'd thought we'd ever be...

Disruption Song. No point in holding

Onto old plans. You know they've got to go...

Countdown is on

The ground is shifting

Countdown is on

Momentum's taking us

Countdown is on

The world is tipping

Four, three, two, one.

Who knows which way this will play?

(From "The Disruption Song" by Jim Dandy Audio, 2017)

Investment Themes for 2021

As described in a previous blog post, [WisdomTree has identified five primary investment themes](#) that we believe have a high probability of playing out over the course of 2021 and beyond:

- [Cyclical](#) rotation back toward [small-cap](#), value and [emerging market](#) stocks;
- Emerging markets, both in equity and debt;
- [Reflation](#) (higher than expected inflation in the second half of the year);
- A focus on [quality](#) and income, both in equity and debt; and
- Disruptive growth.

In this blog piece, we want to take a deeper look into this last theme—disruptive growth. As we've written about before, we believe that the [COVID-19 pandemic fundamentally and perhaps permanently altered the way we work, socialize, take care of and entertain ourselves](#).

We believe this has led to certain "thematic" [sectors and industries that are showing huge growth trends](#), and we think these trends will be with us for years to come. These industries include (but are not limited to) financial technology, cloud-based computing, platform-oriented businesses, human genomics, cybersecurity and online gaming and e-sports.

A favorite chart of mine compares the performance of the [S&P 500 Index](#) with and without the "FAANGM" stocks—Facebook, Apple, Amazon, Netflix, Google (Alphabet) and Microsoft. Performance for this group fell off recently as the "work from home" trade faded over the course of Q4 2020 and these companies faced increased regulatory and political scrutiny.

But they still represent a significant percentage of the [market cap](#) of the S&P 500 Index, and their collective performances have driven most of the Index's overall performance over the past several years:



* FAANGM stocks include Facebook, Amazon, Apple, Netflix, Google (Alphabet), and Microsoft. Both classes of Alphabet are included.
Source: Standard & Poor's and I/B/E/S data by Refinitiv.

Source: Yardeni Research, as of 1/22/21. You cannot invest in an index, and past performance does not guarantee future results.



* FAANGM stocks include Facebook, Amazon, Apple, Netflix, Google (Alphabet), and Microsoft. Both classes of Alphabet are included.
Source: Standard & Poor's and Yardeni Research Inc.

Source: Yardeni Research, as of 1/22/21. You cannot invest in an index, and past performance does not guarantee future results.

It is true that since the announcement of potential COVID-19 vaccines back in early November, we have seen a cyclical rotation back toward value and (especially) small-cap stocks, but that does not mean that [growth](#) stocks have fallen out of favor—they just have not gone up as much as value and small-cap stocks. We interpret that to mean that the disruptive growth story still has room to run.



Source: YCharts, data as of 1/28/21. You cannot invest in an index, and past performance does not guarantee future results.

Model Portfolio Implications

With this growth theme in mind, in mid-2020 we launched the WisdomTree Disruptive Growth Model Portfolio. We identified six specific sectors and ETFs that focused on “disruptive” industries and built a diversified portfolio accordingly.

The model includes the following ETFs: the [WisdomTree Cloud Computing ETF \(WCLD\)](#) and the [WisdomTree Growth Leaders ETF \(PLAT\)](#).¹ The performances of both these strategies over the course of 2020 was strong, capitalizing on the various societal changes brought on by the pandemic. Over a common investment period from September 6, 2019 (WCLD’s inception date)–February 1, 2021, WCLD posted a total return of 74.6% (NAV) and PLAT a total return of 47.4% (NAV).²

Since inception, the performance of the disruptive growth model has been exactly what we hoped for, outperforming broad market indexes (e.g., the [MSCI ACWI](#)) and even tech-oriented indexes (e.g., the [NASDAQ 100](#)):

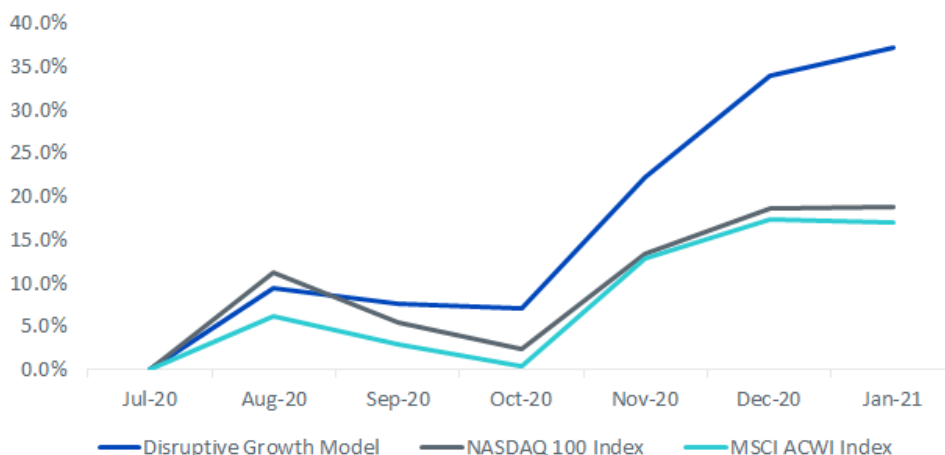


Source: WisdomTree and FactSet. Data range is from July 31, 2020 (WisdomTree Disruptive Growth ETF Model Portfolio inception) – January 31, 2021. Model portfolio performance shown is at NAV. Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and principal value of an investment will fluctuate so that an investor's shares, when sold, may be worth more or less than their original cost.

The Model Portfolio performance results shown are theoretical and do not reflect any investor's actual experience with owning, trading or managing an actual investment. Thus, the performance shown does not reflect the impact that economic and market factors had or might have had on decision making if actual investor money had been managed and allocated per the Model Portfolio. Actual performance achieved in seeking to follow the Model Portfolio may differ from the theoretical performance shown for a number of reasons, including the timing of implementation of trades (including rebalancing trades to adjust to Model Portfolio changes), market conditions, fees and expenses (e.g., brokerage commissions, deduction of advisory or other fees or expenses charged by advisors or other third parties to investors, strategist fees and/or platform fees), contributions, withdrawals, account restrictions, tax consequences, and/or other factors, any or all of which may lower returns. While Model Portfolio performance may have performed better than the benchmark for some or all periods shown, the performance during any other period may not have, and there is no assurance that Model Portfolio performance will perform better than the benchmark in the future. Model Portfolio performance calculations assume reinvestment of dividends, are pre-tax and are net of fund expenses.

ETF shares are bought and sold at market price (not NAV) and are not individually redeemable from the Fund. Total returns are calculated using the daily 4:00 p.m. EST net asset value (NAV). Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where Fund shares are listed. Market price returns do not represent the returns you would receive if you traded shares at other times. You cannot invest in an index.

Click [here](#) for standardized performance.



Sources: WisdomTree, FactSet. Data range is from 7/31/20–1/31/21. You cannot invest in an index, and past performance does not guarantee future results.

In addition, over their common investment period dating back to October 2019, each of the individual six strategies in the portfolio has shown high double-digit (and in some cases triple-digit) returns at NAV.³

Equally appealing to us is the lack of security overlap between the different allocations. As of December 31, 2020, no two of the current six ETF positions had more than 17% securities overlap to each other, and most had less than 10%.

This portfolio carries high [valuations](#) corresponding to its high growth rates, and performance may be [volatile](#), but we believe this level of diversification will help to generate a more consistent performance while still taking advantage of each individual strategy's explosive growth.

Conclusion

With COVID-19 vaccinations slowly being rolled out and the global economy in what we believe is the early stages of a steady recovery (not even including what will almost certainly be another round of massive fiscal stimulus here in the U.S.), we anticipate that 2021 generally will be a constructive “risk-on” market environment.

We believe our **disruptive growth** investment theme will play out well in this environment, as will our corresponding Model Portfolio. It can be allocated to as a stand-alone equity model or as a complementary “sleeve allocation” in broader portfolios where advisors are looking to add a little more “juice” to performance.

Either way, we like how we are positioned to take advantage of what we believe will be an enduring **megatrend** in the market. We think we may be singing “The Disruption Song” for a long time to come.

¹As of December 31, 2020, the WisdomTree ETF PLAT held positions in Facebook (6.28%), Amazon (7.44%), Alphabet (Google) (8.17%) and Microsoft (7.6%), but not in Netflix or Apple. The WisdomTree ETF WCLD did not hold positions in any of the “FAANGM” stocks.

²Data sources: WisdomTree and Factset, using the Fund Comparison Tool on the Digital Portfolio Developer on the WisdomTree website: <https://www.wisdomtree.com/tools>. Access is limited to registered financial professionals. Past performance does not guarantee future results. For standardized performances, please go to the quarterly fact sheets prepared for both of these products and posted to the WisdomTree website.

³Past performance does not guarantee future results.

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PLAT: There are risks associated with investing, including possible loss of principal. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty; these risks may be enhanced in emerging, offshore or frontier markets. Technology platform companies have significant exposure to consumers and businesses, and a failure to attract and retain a substantial number of such users to a company's products, services, content or technology could adversely affect operating results. Technological changes could require substantial expenditures by a technology platform company to modify or adapt its products, services, content or infrastructure. Technology platform companies typically face intense competition, and the development of new products is a complex and uncertain process. Concerns regarding a company's products or services that may compromise the privacy of users, or other cybersecurity concerns, even if unfounded, could damage a company's reputation and adversely affect operating results. Many technology platform companies currently operate under less regulatory scrutiny, but there is significant risk that costs associated with regulatory oversight could increase in the future. The Fund invests in the securities included in, or representative of, its Index regardless of their investment merit, and the Fund does not attempt to outperform its Index or take defensive positions in declining markets. The composition of the Index is heavily dependent on quantitative and qualitative information and data from one or more third parties, and the Index may not perform as intended. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

WCLD: There are risks associated with investing, including possible loss of principal. The Fund invests in cloud computing companies, which are heavily dependent on the Internet and utilizing a distributed network of servers over the Internet. Cloud computing companies may have limited product lines, markets, financial resources or personnel and are subject to the risks of changes in business cycles, world economic growth, technological progress and government regulation. These companies typically face intense competition and potentially rapid product obsolescence. Additionally, many cloud computing companies store sensitive consumer information and could be the target of cybersecurity attacks and other types of theft, which could have a negative impact on these companies and the Fund. Securities of cloud computing companies tend to be more volatile than securities of companies that rely less heavily on technology and, specifically, on the Internet. Cloud computing companies can typically engage in significant amounts of spending on research and development, and rapid changes to the field could have a material adverse effect on a company's operating results. The composition of the Index is heavily dependent on quantitative and qualitative information and data from one or more third parties, 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](#)

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You cannot invest directly in an index.

DEFINITIONS

Cyclical sectors : Consumer Discretionary, Energy, Industrials, Materials, Financials and Information Technology sectors.

Small caps : new or relatively young companies that typically have a market capitalization between \$200 million to \$2 billion.

Emerging market : Characterized by greater market access and less potential for operational risks when compared to frontier markets, which leads to a larger base of potentially eligible investors.

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.

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.

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.

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.

MSCI ACWI Index : A free-float adjusted market capitalization-weighted index that is designed to measure the equity market performance of developed and emerging markets.

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.

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.

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