

WHY STOP AT 65 TIMES EARNINGS?

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Amazon is trying to take over the world, right? At 65, its [price/earnings multiple](#) anticipates perfection. At some point you hit reality: a company that is valued at \$919 billion, rallying hard for years, may be underestimating the very real possibility that someone in Washington will step in and break it up.

Democratic presidential hopeful Elizabeth Warren wants to cut a handful of large tech companies down to size. If Donald Trump’s more than two dozen anti-Amazon tweets are any indication, he may also be on the case. Currently, the company is the most underweighted holding relative to the S&P 500 in the [WisdomTree U.S. LargeCap Fund \(EPS\)](#), our 8 [bps](#) twist on [beta](#) (figure 1).

Figure 1: EPS’s Largest Underweights vs. [S&P 500](#)

Rank	Stock	EPS Weight	S&P 500 Weight	% Underweight	P/E Ratio (2018)	Adj. EPS Growth Rate, 2015-2018	2019 Adj. EPS Est. YoY (%)	2020 Adj. EPS Est. YoY (%)	2021 Adj. EPS Est. YoY (%)	Est. Adj. EPS Growth Rate (2018-2021)
1	AMAZON.COM INC	0.72%	3.27%	-2.55%	65.1	90.7%	27.7%	34.2%	33.3%	31.7%
2	MICROSOFT CORP	2.85%	4.01%	-1.16%	32.1	13.8%	18.0%	11.4%	15.5%	14.9%
3	ALPHABET INC-CL A	2.36%	2.95%	-0.59%	21.2	22.4%	3.3%	15.1%	14.1%	10.7%
4	NETFLIX INC	0.13%	0.66%	-0.53%	109.4	75.6%	22.2%	70.0%	49.9%	46.0%
5	MEDTRONIC PLC	0.00%	0.49%	-0.49%	18.2	3.7%	8.0%	5.6%	9.0%	7.5%
6	ACCENTURE PLC-CL A	0.00%	0.46%	-0.46%	25.5	11.8%	8.6%	8.7%	8.7%	8.7%
7	SALESFORCE.COM INC	0.07%	0.50%	-0.43%	115.1	37.4%	103.7%	-2.2%	27.5%	36.5%
8	QUALCOMM INC	0.00%	0.42%	-0.42%	22.7	-7.5%	5.4%	36.8%	30.8%	23.6%
9	LINDE PLC	0.00%	0.40%	-0.40%	29.4	N/A	12.3%	13.4%	17.2%	14.3%
10	MERCK & CO. INC.	0.45%	0.84%	-0.39%	17.8	6.5%	9.0%	12.1%	12.6%	11.2%
Median					27.4	13.8%	10.6%	12.7%	16.4%	14.6%
Weighted Average					42.2	35.4%	18.7%	20.3%	21.3%	19.7%

Sources: WisdomTree, Bloomberg, as of 5/9/2019; P/E = trailing 12 months. Weighted average uses S&P 500 weights. Estimated (EST) future growth is Wall Street consensus. Weights subject to change.

Amazon [bulls](#) point to the company’s impressive 91% annual earnings growth in the three years ending 2018. But that may be the company’s Achilles’ heel: the [ghost of Teddy Roosevelt](#) could look at figure 2 and think, “Standard Oil.”

Figure 2: Amazon through the Years: [Adjusted Earnings per Share](#)

Year	Adj. Earnings per Share
2008	\$1.87
2009	\$2.73
2010	\$3.24
2011	\$2.20
2012	\$1.38
2013	\$2.18
2014	\$1.59
2015	\$4.14
2016	\$8.89
2017	\$10.11
2018	\$28.71
Est. 2019	\$36.65
Est. 2020	\$49.17
Est. 2021	\$65.56

Sources: WisdomTree, Bloomberg, as of 5/9/2019. Estimated future growth is Wall Street consensus.

Figure 3 shows the WisdomTree U.S. LargeCap ETF’s largest overweights. Because companies are ranked by the quantity of their earnings, it picks up Apple and a handful of financial giants, among others. Currently, the former is not as much of a breakup candidate as some of tech’s other political targets, partly because it is engaged in a fierce smartphone battle that has the Street anticipating a 3.1% earnings decline this year.

Yes, the banks have been a regulatory risk since the financial crisis, but the Street is sober on them, with companies like Goldman Sachs trading for eight times last year’s earnings. Hardly bubbly.

Figure 3: EPS’s Largest Overweights vs. S&P 500

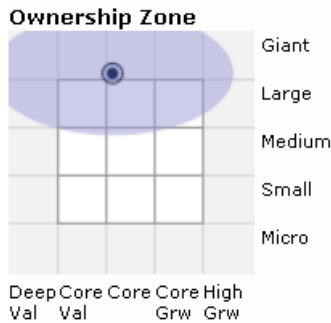
Rank	Stock	EPS Weight	S&P 500 Weight	% Overweight	P/E Ratio (2018)	Adj. EPS Growth Rate, 2015-2018	2019 Adj. EPS Est. YoY (%)	2020 Adj. EPS Est. YoY (%)	2021 Adj. EPS Est. YoY (%)	Est. Adj. EPS Growth Rate (2018-2021)
1	APPLE INC	5.48%	3.75%	1.73%	16.4	8.8%	-3.1%	12.3%	14.1%	7.5%
2	BANK OF AMERICA	2.17%	1.11%	1.06%	11.2	24.0%	8.7%	10.1%	8.3%	9.0%
3	MICRON	1.19%	0.18%	1.01%	3.2	63.8%	-47.4%	-26.3%	6.5%	-25.6%
4	JPMORGAN CHASE &	2.47%	1.53%	0.94%	12.4	11.8%	10.8%	6.4%	5.8%	7.7%
5	BERKSHIRE HATHAWAY	2.61%	1.69%	0.92%	20.6	12.6%	3.8%	6.1%	5.5%	5.1%
6	CITIGROUP INC	1.48%	0.66%	0.82%	10.1	7.5%	13.8%	13.7%	10.0%	12.5%
7	INTEL CORP	1.47%	0.87%	0.60%	9.9	25.1%	-5.0%	5.5%	8.9%	3.0%
8	GOLDMAN SACHS	0.84%	0.29%	0.55%	8.3	9.5%	-3.4%	9.7%	5.7%	3.8%
9	MORGAN STANLEY	0.73%	0.25%	0.48%	10.0	19.5%	7.4%	9.1%	7.8%	8.1%
10	INTL BUSINESS	0.95%	0.50%	0.45%	9.6	-2.5%	0.7%	2.0%	2.7%	1.8%
Median					10.0	12.2%	2.3%	7.8%	7.1%	6.3%
Weighted Average					14.1	13.3%	1.7%	8.6%	9.3%	6.3%

Sources: WisdomTree, Bloomberg, as of 3/18/2019; P/E = trailing 12 months. Weighted average uses S&P 500 weights. Weights subject to change. Estimated future growth is Wall Street consensus.

If Teddy Roosevelt makes a comeback, investors may want to reconsider their allegiance to [cap weighting](#).

Currently, [EPS is a Morningstar 4-star fund](#)¹ despite two headwinds: it had the hurdle of a 0.28% expense ratio for many years (we dropped it to 0.08% in March). Also, it skews toward [value](#) within the core and has been facing a market that favors growth stocks since we launched it in 2007 (figure 4).

Figure 4: Morningstar Style Box: WisdomTree U.S. Large Cap ETF (EPS)



Source: Morningstar.com, as of 5/9/2019. The Morningstar Investment Style Box™ reveals a fund investment strategy. For the equity holdings in the fund's portfolio, the vertical axis shows the market capitalization of the stocks owned, and the horizontal axis shows investment style (value, blend or growth). Val = value; Grw = growth

With the fee drop, we are putting EPS head-to-head with the meat of the portfolio's core—up against all these index funds that are loaded with Facebook, Amazon and the rest. If Teddy reappears, EPS's under-weight to Big Tech may be just what the doctor ordered.

¹As of 3/29/19 Overall rating based on risk-adjusted returns out of 1,218 funds for the US Fund Large Blend category

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You cannot invest directly in an index.

DEFINITIONS

Earnings multiple : another way of saying price-to-earnings multiple.

Basis point : 1/100th of 1 percent.

Beta : A measure of the volatility of a security or a portfolio in comparison to a benchmark. In general, a beta less than 1 indicates that the investment is less volatile than the benchmark, while a beta more than 1 indicates that the investment is more volatile than the benchmark.

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.

Bullish : a position that benefits when asset prices rise.

Earnings per share : Total earnings divided by the number of shares outstanding. Measured as a percentage change as of the annual Index screening date compared to the prior 12 months. Higher values indicate greater growth orientation.

Market capitalization-weighting : 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.

Value : Characterized by lower price levels relative to fundamentals, such as earnings or dividends. Prices are lower because investors are less certain of the performance of these fundamentals in the future. This term is also related to the Value Factor, which associates these stock characteristics with excess returns vs the market over time.