

DE-FAANGING THE STOCK MARKET

Jeff Weniger — Head of Equity Strategy

04/13/2018

There is no law that says that broad U.S. stock market engagement must include the so-called “FAANGs”—Facebook, Apple, Amazon, Netflix and Google (now named Alphabet). For example, the [WisdomTree U.S. Multifactor ETF \(USMF\)](#) holds 196 companies, not one of them a FAANG. The same goes for the [WisdomTree U.S. High Dividend Fund \(DHS\)](#),¹ our \$1 billion high-[dividend](#) ETF. In fact, the only WisdomTree ETF with FAANG exposure anywhere near that of the [Russell 1000's](#) 10.2% is the [WisdomTree U.S. Earnings 500 Fund \(EPS\)](#), our 500-stock answer to the [S&P 500](#).²

For most investors, the FAANG decision has for years rested on merit alone. Were they good investment prospects or not? Returning an annualized 46.0%, 19.8%, 36.1%, 70.8% and 24.4%, respectively, in the five years through 2017, the FAANG stocks handily outperformed the S&P 500, which was itself up an impressive 15.8% annually in that time.

But now we have #DeleteFacebook. The viral social media campaign implores users to close their accounts amid the revelation that the intimate information of 87 million users was given to Cambridge Analytica, the political data firm. There is a creeping sensation that there is now more to the FAANG investing question than just investment prospects. Some of these companies are bringing visions of George Orwell's *1984*.

The Facebook scandal came just weeks after the Russell 1000 Index of U.S. large caps completed a top-to-bottom 8.7% swoon (figure 1). FAANG stocks actually had a “good” bear raid in January and February; three of the five companies declined by less than the broad market.

But the March–April market declines are a different story for the FAANG stocks. All five are leading the market down in this episode. In this second decline, many WisdomTree U.S. equity ETFs have held up better than the market due to their reduced reliance on the FAANG five. Yet notice that even with tech struggling lately, both Amazon and Netflix are still up sharply year-to-date. Only USMF, our multifactor ETF, has been able to best the Russell 1000 thus far in 2018. But like the action in the last month or so, that may change if tech has problems the rest of the year.

Figure 1: Stock Market Performance, Last Two Declines

Ticker	Name	1/26/18–2/9/18	3/13/18–4/6/18	YTD
FB	Facebook	-7.31%	-13.57%	-10.91%
AAPL	Apple	-8.44%	-6.44%	-0.10%
AMZN	Amazon	-4.45%	-11.52%	20.16%
NFLX	Netflix	-9.15%	-8.56%	50.47%
GOOGL	Alphabet (Google)	-11.90%	-11.40%	-4.12%
EPS	WisdomTree U.S. Earnings 500 Fund	-8.69%	-5.78%	-3.13%
DLN	WisdomTree U.S. LargeCap Dividend Fund	-8.75%	-4.62%	-4.12%
DGRW	WisdomTree U.S. Quality Dividend Growth Fund	-9.17%	-5.44%	-3.18%
DHS	WisdomTree U.S. High Dividend Fund	-8.97%	-3.41%	-6.20%
QSY	WisdomTree U.S. Quality Shareholder Yield Fund	-8.61%	-5.29%	-2.92%
USMF	WisdomTree U.S. Multifactor Fund	-8.20%	-3.23%	0.16%
RIY Index	Russell 1000 Index	-8.68%	-5.63%	-2.04%
RGUSTL Index	Russell 1000 Technology Index	-8.33%	-8.66%	1.21%

Sources: WisdomTree, Bloomberg. All data through 4/6/18. The second decline ends as of the date of this writing.

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. Performance data for the most recent month-end is available at www.wisdomtree.com.

WisdomTree shares are bought and sold at market price (not NAV) and are not individually redeemed 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.

For standardized performance of the Funds mentioned in the chart, please click [here](#).

Public Enemy: Big Tech?

Mark Zuckerberg, the Facebook founder, just testified to a politically ambitious Congress in a public event that was a top story for several days. No surprise then that the other cultivator of our most private information, Google, is scrambling to protect its brand as Silicon Valley's reputation falters. Google has records of everywhere we've gone for the last decade, and now it knows that we know that it knows. As the uncomfortable joke goes, if Washington snooped on us like this, there would be armed rebellion, but with Google, "we gave it to them so that we can watch funny cat videos."

Then there is the collective attention span killing and destruction of social grace via smartphones. A fear overhanging Big Tech is that the regulators will make those companies answer, somehow, to smartphone addiction. And even if this weren't an issue, almost everyone already owns a device, so how will Apple convince people to buy another?

Amazon, the new Walmart³ in so many ways, is pilloried for what many view as unsavory business practices that undercut the competition. President Trump is upping the ante, accusing the company of using the U.S. Postal Service's subsidized postage costs to price out competitors.

There is also a whole other set of FAANG-like companies that are not helping Big Tech's reputation. Take Tesla.⁴ Its senior unsecured 2025 bonds made headlines by blowing out to close March at a yield of 7.55%.⁵ Then, on April 1—just days later—CEO Elon Musk posted an ill-timed April Fools' tweet about Tesla going bankrupt and selling Easter eggs to raise cash. As for Twitter,⁶ the medium that Musk uses to communicate, that is another company in the FAANG-like coterie that is under pressure for its political influence. Angry voices from all persuasions argue that Twitter determines who holds the microphone.

And in this era of political activism via investment management, it is not much of a leap to see investor attitudes moving in the direction of placing some of these firms on the "no" list, along with tobacco/guns/casinos, or whatever bothers any of us. If it happens on a wide enough scale, the FAANG stocks and other Silicon Valley worthies could be in for a rude awakening. Washington or Brussels adding regulations is sugar on top.

FAANGs in WisdomTree Funds

With interrelated reputational risk like the kind that has cropped up in these five stocks, it may be time to question whether investing 10% of U.S. equity capital in them is wise. Figure 2 shows the FAANG exposure of six WisdomTree

ETFs. Many of them can partly or completely help solve the problem.

Figure 2: FAANG Weightings

Ticker	RIY Index	EPS	DLN	DGRW	DHS	QSY	USMF
Name	Russell 1000 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	1.51%	1.34%	--	--	--	--	--
Apple	3.41%	4.84%	3.33%	3.96%	--	0.46%	--
Amazon	2.33%	0.24%	--	--	--	--	--
Netflix	0.48%	0.07%	--	--	--	--	--
Alphabet (Google)	2.48%	2.06%	--	--	--	--	--
Total	10.21%	8.55%	3.33%	3.96%	0.00%	0.46%	0.00%

Sources: Bloomberg, WisdomTree. Data as of 4/2/18. Subject to change.

¹Sources: WisdomTree, Bloomberg, as of 4/12/18 the total AUM of DHS is \$1.02bn.

²Sources: WisdomTree, Bloomberg, as of 4/2/18. Holdings subject to change. EPS currently has 8.6% in the FAANGs. Click here for daily holdings of [EPS](#).

³Please click on the following WisdomTree ticker symbol to see each Fund's holdings percentage of Wal-Mart, [EPS](#), [DLN](#), [QSY](#) and [USMF](#).

⁴As of 4/11/2018, the WisdomTree ETFs mentioned do not hold Tesla.

⁵Sources: Bloomberg, WisdomTree.

⁶As of 4/11/2018, the WisdomTree ETFs mentioned do not hold Twitter

Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. Funds focusing their investments on certain sectors increase their vulnerability to any single economic or regulatory development. This may result in greater share price volatility. Due to the investment strategy of these Funds, it may make higher capital gain distributions than other ETFs. While the QSY 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.

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.

For the top 10 holdings of USMF please visit the Fund's fund detail page at <https://www.wisdomtree.com/investments/etfs/equity/usmf>

For the top 10 holdings of WTV please visit the Fund's fund detail page at <https://www.wisdomtree.com/investments/etfs/equity/wtv>

For the top 10 holdings of EPS please visit the Fund's fund detail page at <https://www.wisdomtree.com/investments/etfs/equity/eps>

For the top 10 holdings of DLN please visit the Fund's fund detail page at <https://www.wisdomtree.com/investments/etfs/equity/dln>

For the top 10 holdings of DGRW please visit the Fund's fund detail page at <https://www.wisdomtree.com/investments/etfs/equity/dgrw>

For the top 10 holdings of DHS please visit the Fund's fund detail page at <https://www.wisdomtree.com/investments/etfs/equity/dhs>

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, Kara Marciscano, Jianing Wu, Brian Manby and Scott Welch 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

Dividend : A portion of corporate profits paid out to shareholders.

Russell 1000 Index : A measure of the performance of the 1,000 largest companies by market capitalization in the Russell 3000 Index.

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.