

INTRODUCING THE WISDOMTREE U.S. QUALITY GROWTH FUND (QGRW)

Matt Wagner — Associate Director, Research

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How do you identify growth stocks?

A few common measures include trailing sales and earnings growth, future sales and [earnings growth estimates](#), and relative [valuations](#) like [price-to-earnings](#), [price-to-sales](#) and [price-to-book ratios](#).

Because earnings-based measures of [growth](#) may be undefined for loss-making growth companies, growth strategies may ignore profitability considerations in favor of metrics like price-to-sales and price-to-book as proxies for growth.

At times, growth investors become enamored with more narrow, non-earnings growth measures like “eye-balls” during the internet craze of the early 2000s or “subscriber-growth” in recent years as it relates to streaming platforms and social media companies.

This can lead to an approach to growth that over-weights allocations to highly speculative, or junky, growth names.

Alternatively, some investors have been considering focusing on [quality](#) stocks—companies with higher profitability—to implicitly tilt toward profitable growth stocks. But ignoring explicit growth signals can lead to excluding some of the fastest-growing companies, diluting the intended growth exposure.

The [WisdomTree U.S. Quality Growth Index](#) aims to identify [stocks](#) that have both quality and growth characteristics to avoid having to sacrifice on either factor.

Why Quality?

Investors are familiar with the standard [value](#), blend and growth styles. So why blend quality with growth?

Higher operating profitability (higher quality) has outpaced lower quality over time. And that outperformance has been most pronounced in the higher growth (lower value) segments of the market.

In the below table, the highest profitability quintile (1st quintile) outperformed the broad market controlling for valuation (price-to-book). When looking at the 5th quintile on price-to-book (the lowest value/highest growth quintile), there was a [spread](#) of 8.82% annualized between the highest profitability quintile and the lowest profitability quintile.

These historical returns suggest investing in growth stocks is a losing game over the long run. We believe investors should instead invest in **high quality growth stocks**.

Price-to-Book and Profitability Quintiles

		Higher Quality →					
		Operating Profitability Quintiles					
		5th (Lowest)	4th	3rd	2nd	1st (Highest)	1st vs. 5th
More Value ↓	5th (Highest)	2.12%	8.41%	8.63%	9.48%	10.93%	8.82%
	4th	5.88%	8.67%	10.49%	10.98%	11.06%	5.18%
	3rd	6.21%	9.79%	11.24%	13.30%	13.71%	7.50%
	2nd	8.86%	10.63%	13.23%	12.29%	13.75%	4.89%
	1st (Lowest)	11.78%	13.09%	14.38%	14.35%	11.95%	0.17%
		Total Market Return: 10.10%					

Source: Kenneth French Data Library, 6/30/1963–9/30/2022. Period based on availability of annual operating profitability returns sorted into quintiles, which begins 6/30/1963. Market is U.S.-listed equities grouped on the basis of operating profitability and price-to-book. Returns are annualized. Past performance is not indicative of future results.

The WisdomTree U.S. Quality Growth Index

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

The Index is composed of the 100 U.S. companies (1st 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 \(earnings before interest, taxes, depreciation and amortization\)](#) 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 its trailing three-year average return on equity and its trailing three-year average return on assets.

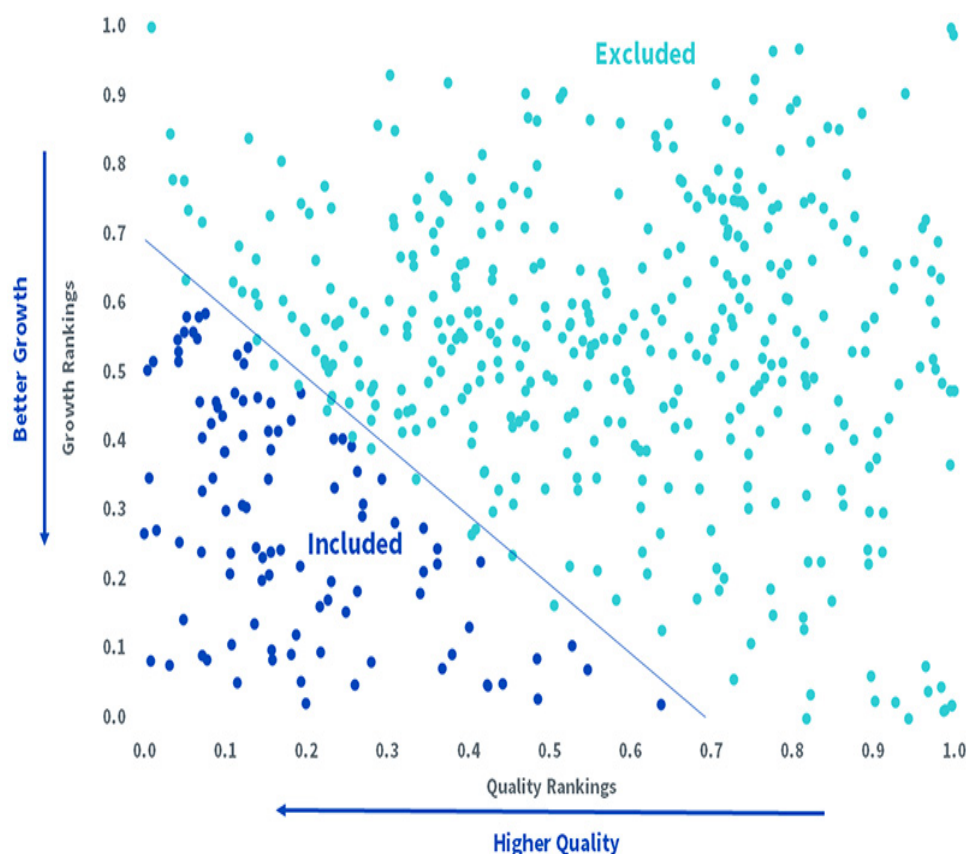
Investment Process



Rebalance Frequency / Weighting / Caps
Semi-annual rebalance (June and December)
Market-cap weighted
Individual Security Caps (15%)

In the below chart we show how the initial 500-stock starting universe ranks on our growth and quality scores. The process of blending independent quality and growth scores results in excluding the bottom 30% (ranks 0.7 through 1.0) on each factor.

Blending Quality and Growth: Rankings for the Quality Growth Universe



Sources: WisdomTree, FactSet, as of 10/31/22. Universe includes companies in the top 500 of U.S. equities by market cap. Blue dots include companies included in the WisdomTree U.S. Quality Growth Index at the rebalance screened on 10/31/22. You cannot invest directly in an index. Past performance is not indicative of future results.

The Index is intended to be a high-conviction, relatively concentrated growth portfolio aimed at having over-weight allocations in the largest quality growth companies. As a result, the Index has a high percentage of its weight (59%) in the top 10 holdings.

Index Top Holdings

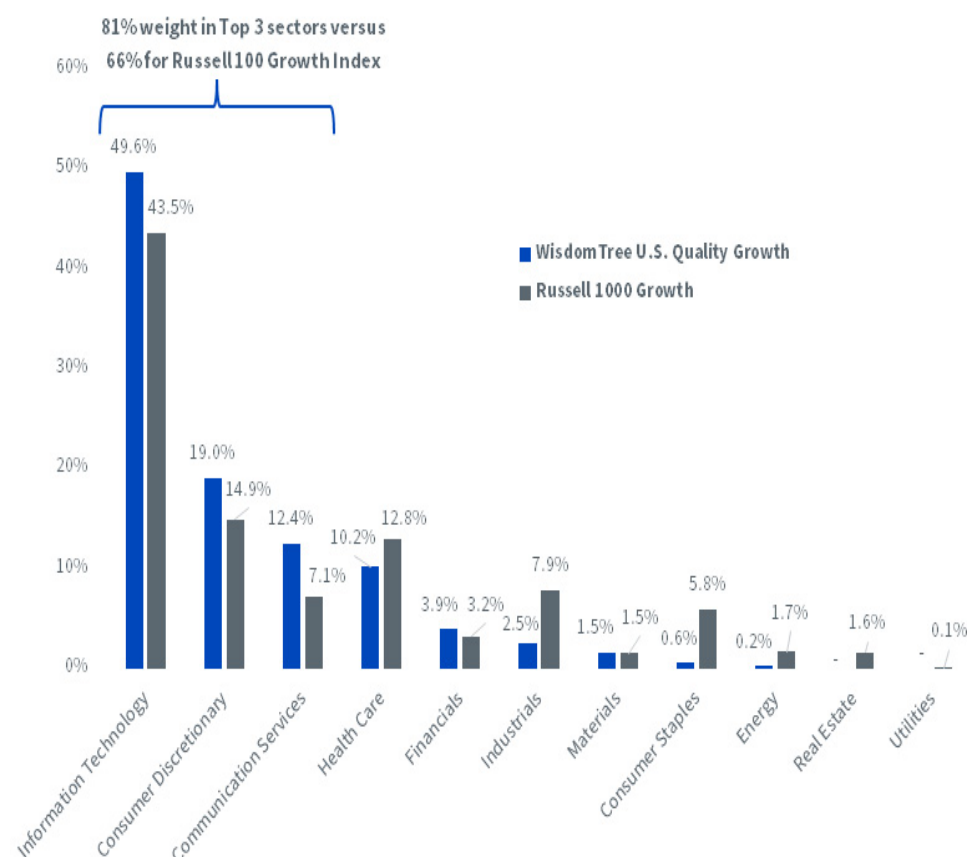
Name	Sector	Weight
Apple Inc.	Information Technology	12.7%
Microsoft Corporation	Information Technology	10.8%
Alphabet Inc. Class A	Communication Services	7.4%
Amazon.com, Inc.	Consumer Discretionary	5.4%
UnitedHealth Group Incorporated	Health Care	4.5%
Tesla Inc	Consumer Discretionary	4.4%
Visa Inc. Class A	Information Technology	4.0%
NVIDIA Corporation	Information Technology	3.7%
Mastercard Incorporated Class A	Information Technology	3.1%
Home Depot, Inc.	Consumer Discretionary	3.0%
Total		59.1%

Source: WisdomTree, as of 11/30/22. Holdings and weights subject to change. You cannot invest directly in an index.

The top three Index sector weights (Information Technology, Consumer Discretionary and Communication Services)

combine to 81%, an increase of 15% from the [Russell 1000 Growth Index](#).

Index Sector Weights



Source: WisdomTree, as of 11/30/22. Holdings and weights subject to change. You cannot invest directly in an index.

As expected, relative to the [S&P 500](#), both the WisdomTree U.S. Quality Growth and the Russell 1000 Growth have premium profitability and growth characteristics.

Index Characteristics

Characteristics	WisdomTree U.S. Quality Growth	Russell 1000 Growth	S&P 500
Number of Holdings	100	513	503
Price-to-Book	9.3x	9.9x	4.1x
Price-to-Sales	4.4x	3.5x	2.4x
Return on Equity	29.7%	32.8%	19.8%
Return on Assets	13.6%	9.8%	4.3%
Trailing 5-Year Sales Growth	18.8%	15.7%	11.5%
Trailing 5-Year Earnings Growth	25.1%	24.0%	16.9%
Long-Term Growth Estimate	13.7%	14.5%	11.0%

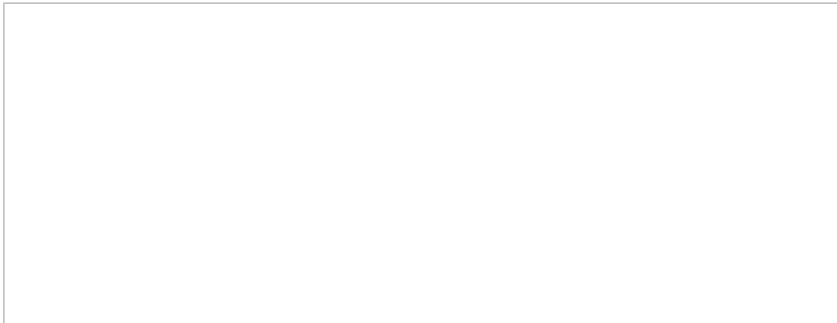
Sources: WisdomTree, FactSet, 11/30/22. Past performance is not indicative of future results. You cannot invest directly in an index.

Introducing the WisdomTree U.S. Quality Growth Fund (QGRW)

The [WisdomTree U.S. Quality Growth Fund \(Ticker: QGRW\)](#) seeks to track the price and yield performance, before fees and expenses, of the WisdomTree U.S. Quality Growth Index.

Why **QGRW**?

- Gain core exposure to U.S. large- to mid-cap companies that display strong quality and growth characteristics
- Use as a U.S. growth investing solution that combines quality and growth factors
- Use to satisfy demand for clients seeking high-conviction growth allocations that emphasize profitability



Important Risks Related to this Article

There are risks associated with investing, including 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, 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 the top 10 holdings of QGRW please visit the Fund's fund detail page at <https://www.wisdomtree.com/investments/etfs/equity/qgrw>

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.

Related Funds

+ [WisdomTree U.S. Quality Growth Fund](#)

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

Earnings growth estimates : Bloomberg analysts' long-term earnings growth expectations, which encompass the estimated growth in operating earnings per share over the company's next full business cycle, typically three to five years.

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.

Price-to-earnings (P/E) ratio : Share price divided by earnings per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested.

Price-to-sales (P/S) ratio : share price divided by per share revenue.

Price-to-book ratio : Share price divided by book value per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested.

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.

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.

Stock : A stock (also known as equity) is a security that represents the ownership of a fraction of a corporation. This entitles the owner of the stock to a proportion of the corporation's assets and profits equal to how much stock they own. Units of stock are called "shares."

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.

Spread : Typically refers to a difference between a measure of yield for one asset class and a measure of yield for either a different subset of that asset class or a different asset class entirely.

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.

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.

Earnings before interest, taxes, depreciation, and amortization (EBITDA) : The net income of a company with interest, taxes, depreciation, and amortization added back to it.

Russell 1000 Growth Index : A measure of the large-cap growth segment of the U.S. equity universe, selecting from the Russell 1000 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.

Large-Capitalization (Large-Cap) : A term used by the investment community to refer to companies with a market capitalization value of more than \$10 billion. Large cap is an abbreviation of the term "large market capitalization". Market capitalization is calculated by multiplying the number of a company's shares outstanding by its stock price per share.

Mid-Cap : Characterized by exposure to the next 20% of market capitalization (after the top 70% have been removed) within the Value, Blend or Growth style zones with the majority of the fund's weight.