

Formula One, marginal gains and the art of long-term investing

Published 15 January 2026

Tobias Lazar

Associate Director, Quantitative Research

Key Takeaways

- Standard benchmarks are built using set rules, which can lead to heavy exposure to a small number of companies.
- How an index is designed determines what investors own.
- Even small changes to how an index is built can make a difference to results over time.
- Related Products WisdomTree Megatrends UCITS ETF - USD Acc, WisdomTree Emerging Markets ex-State-Owned Enterprises UCITS ETF – Acc Find out more

Marginal gains that compound

In professional sports, such as car racing or cycling, the concept of ‘marginal gain’ determines the difference between winning and losing. Take Red Bull’s Formula One team as an example. Over the past decade, they not only won four driver’s world championship titles and two constructors’ championship titles, but also the award for the fastest pit stops in seven out of ten years.

Table 1: Formula One as an example of compounding marginal gains

Source: formula1.com, 2025.

The Fastest Pit Stop Award recognises the team with the shortest pit stop times across the whole season, which is the time race cars spend in the box for tyre changes and minor repairs. What’s striking (see Table 1) is that in nine out of the last ten years, the team with the winning driver also ranked among the top three in the pit stop award. Fractions of a second gained at each stop can accumulate over the course of a race, making the difference between second and first place. While factors such as drivers and technology depend partly on financial resources, reducing pit stop times is largely a matter of practice and operational excellence.

The status quo of investing

In equity investing, the most common approach is to invest in the benchmark, typically a market-capitalisation-weighted portfolio representing every publicly listed company worldwide. Put differently, you invest

exactly like the average stock market investor: If, on average, every investor has 5% of their portfolio invested in Apple Inc, so do you.

In Fixed Income, that is, investing in debt securities, the most prominent approach is to include all publicly issued debt from governments and corporates, subject to credit rating and liquidity rules. The debt securities are weighted by the value of the debt. Consequently, a company that issues more debt receives a higher weight than one with a lower debt burden.

In commodities, the primary benchmark selects all commodities with liquid futures contracts and weights the selected contracts based on the futures' liquidity and the commodities' production volume in a 2:1 ratio. The result is a 29% allocation to fossil fuels, but only 16% to highly sought-after industrial metals like copper or aluminium.¹

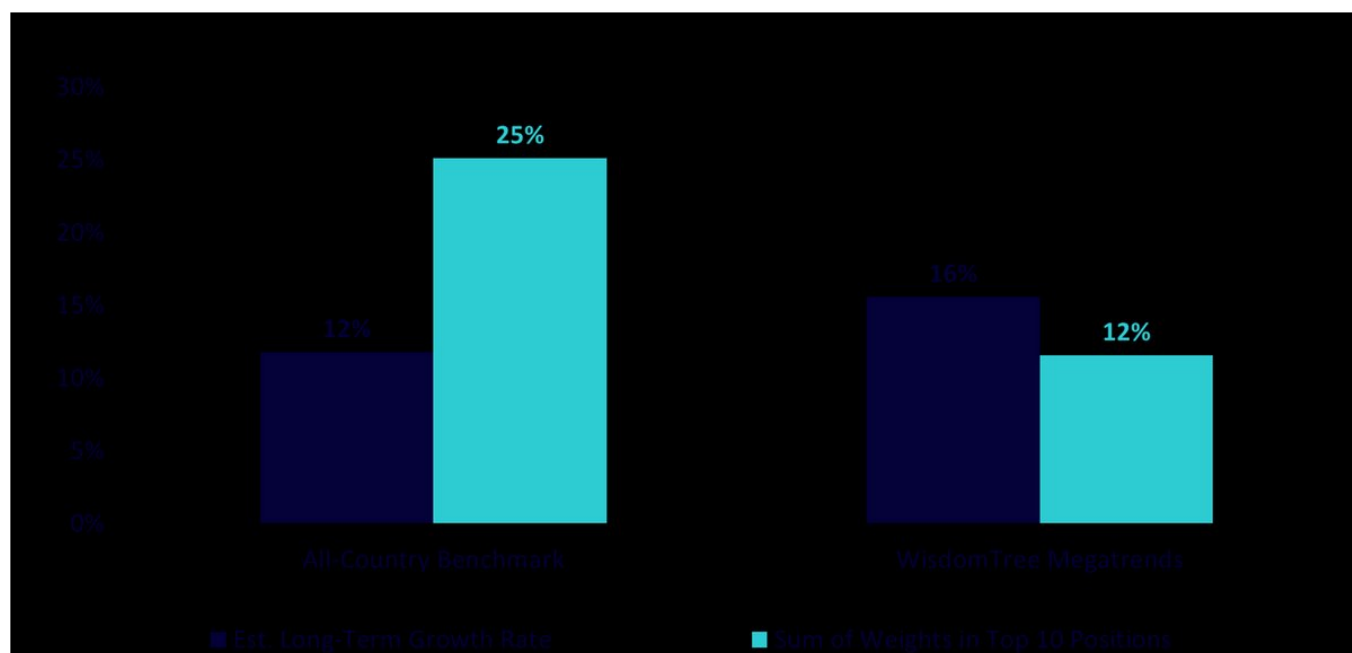
While most common, the above approaches to investment don't always yield the best results. Like in sports, marginal gains can also compound into meaningful outcomes over time for investors.

Finding marginal gains

Using anecdotal evidence, we'll show how our approach helps investors find those marginal gains that can make the difference between winning and losing.

A common problem of market-cap weighting in equities is concentration risk. Such benchmarks, and the lowest-cost exchange-traded funds (ETFs) that track them, exhibit large weights in a handful of US technology stocks, limiting investors' ability to diversify. Even if the so-called Magnificent Seven² have been major contributors to the stock market's growth over the past decade, over the very long term, high concentration in a few stocks is not the most prudent approach.

Figure 1: Solving for concentration risk while gaining access to higher long-term growth



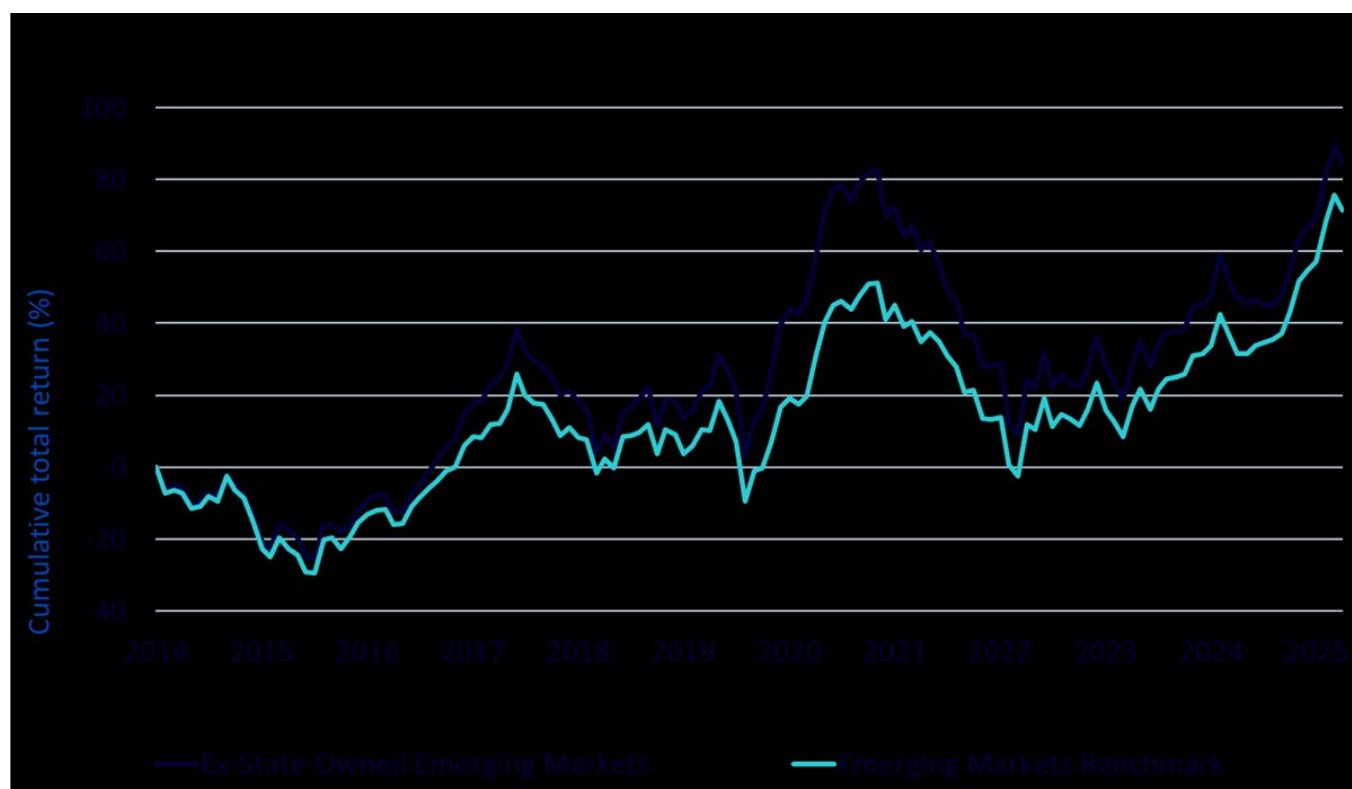
Source: WisdomTree as of 28 November 2025. The estimated long-term growth is the median annual sales growth rate expectation of market participants over the next 3 to 5 years. The All-Country Benchmark is the MSCI ACWI Index. WisdomTree Megatrends is the WisdomTree Global Megatrends Equity Index. **Historical performance is not an indication of future performance, and any investments may go down in value.**

While diversification means reducing exposure to today's mega caps, it doesn't have to come at the cost of long-term growth. As seen in Figure 1, the WisdomTree Megatrends index, which includes companies benefiting from some of today's most important economic and societal shifts, has both a lower concentration in its top ten holdings and a higher estimated long-term annual sales growth rate of 16%, compared with 12% for the equity benchmark.

Another example is emerging markets equities. Many governments own stakes in public companies, particularly in sectors such as oil, gas, electricity, or banking. In his book 'The 10 Rules Of Successful Nations', Ruchir Sharma, former Head of Emerging Markets and Chief Global Strategist of Morgan Stanley Investment Management, describes how state-owned companies have often been misused as job-creation tools. During economic drawdowns, state-owned banks were pressured to extend loans that later turned sour.

To limit the influence of biased politicians, it makes sense to exclude state-owned enterprises from an emerging markets index. It's a small adjustment, but the marginal gains have accumulated over time, as demonstrated by the outperformance of the WisdomTree Emerging Markets Ex State Owned Enterprise Index (see Figure 2).

Figure 2: State-owned companies have been a drag on emerging markets equity performance

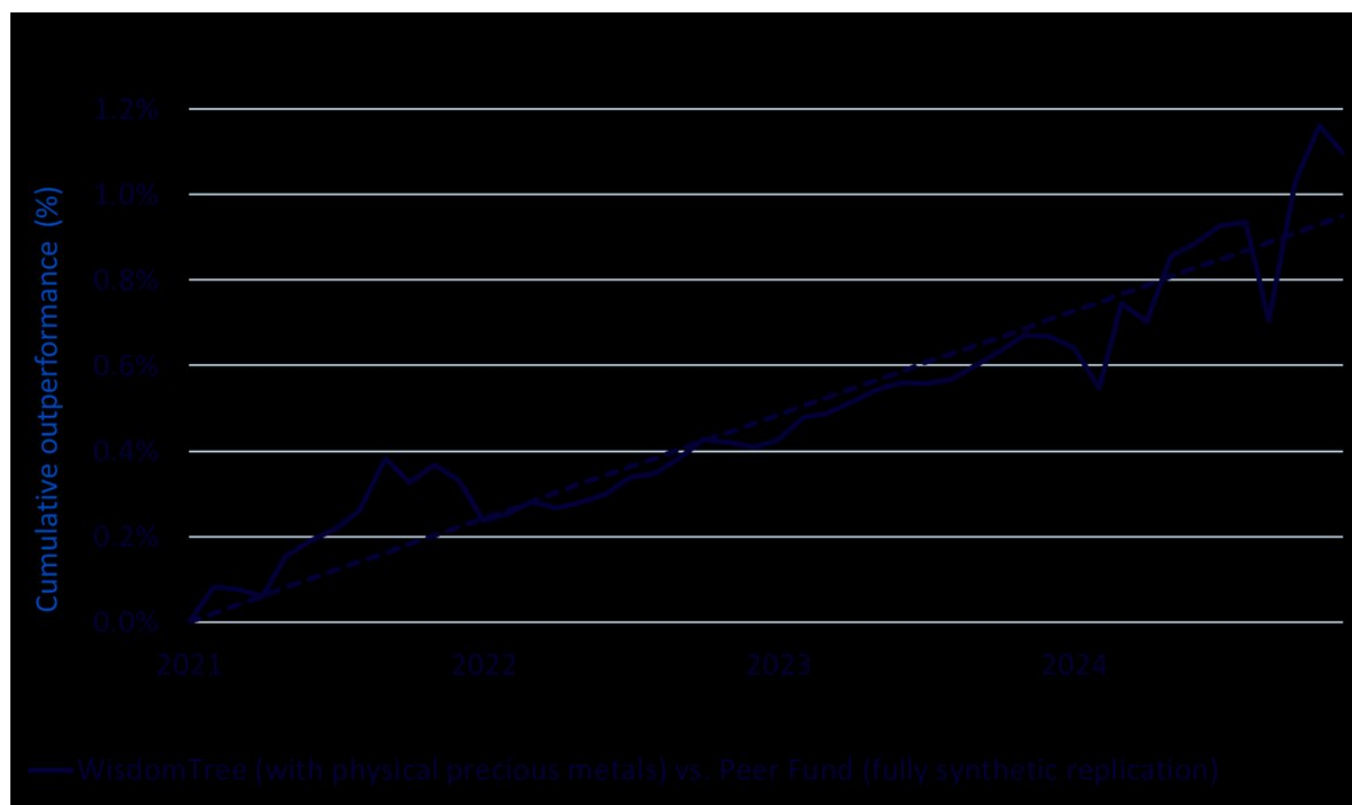


Source: WisdomTree, Bloomberg, from 29 August 2014 to 28 November 2025. The Emerging Markets Benchmark is the MSCI Emerging Markets Total Return Index. Ex-State-Owned Emerging Markets is the WisdomTree Emerging Markets ex State Owned Enterprises Total Return Index. **Historical performance is not an indication of future performance, and any investments may go down in value.**

A third example is the replication of a broad commodity benchmark. Synthetic replication (using futures contracts) is often the only feasible approach, as most commodities are either bulky, such as aluminium, or perishable, such as wheat. As a result, replication through financial contracts has become the norm and generally results in relatively close (but not perfect) tracking of commodity spot prices. However, this approach can also have drawbacks, as future contracts may incur roll costs over time.

Where physical replication is possible, such as for precious metals like gold and silver, efficient physical custody can provide a meaningful benefit (Figure 3). Within the European ETF market, our Broad Commodities UCITS ETF is the only broad commodity UCITS ETF to replicate precious metals exposure through physically backed exchange-traded products, reflecting how many investors seek exposure to gold or silver individually. This has historically led to meaningful outperformance versus low-cost beta competitor ETFs.

Figure 3: WisdomTree Broad Commodity UCITS ETF outperforms fully synthetic peer fund



Source: WisdomTree, Bloomberg, from 31 December 2021 to 28 November 2025. The timeseries shows the difference in cumulative return of net asset values of the WisdomTree Broad Commodities UCITS ETF and a peer ETF tracking the same index in US Dollar. The dashed line visualises the historical trend as a linear function. **Historical performance is not an indication of future performance, and any investments may go down in value.**

Conclusion

Standard investment approaches can be a useful starting point, but following them blindly can create unintended exposures, from heavy reliance on a small group of stocks to owning companies simply because they have issued more debt or favouring oil for liquidity rather than relevance.

Formula One highlights the power of marginal gains. At WisdomTree, we focus on applying that principle to index design, seeking to improve how portfolios are built rather than simply accepting the status quo.

1 Source: Bloomberg, 2025. <https://www.bloomberg.com/company/press/bloomberg-commodity-index-2026-target-weights-announced/>.

2 The Magnificent Seven stocks are a group of high-performing and influential companies in the US stock market: Alphabet, Amazon, Apple, Tesla, Meta Platforms, Microsoft and Nvidia.

Important Risks Related to this Article

Important Information

Marketing communications issued in the European Economic Area (“EEA”): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA: This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as “WisdomTree” (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

For professional clients only. The information contained in this document is for your general information only and is neither an offer for sale nor a solicitation of an offer to buy securities or shares. This document should not be used as the basis for any investment decision. Investments may go up or down in value and you may lose some or all of the amount invested. Past performance is not necessarily a guide to future performance. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

The application of regulations and tax laws can often lead to a number of different interpretations. Any views or opinions expressed in this communication represent the views of WisdomTree and should not be construed as regulatory, tax or legal advice. WisdomTree makes no warranty or representation as to the accuracy of any of the views or opinions expressed in this communication. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

This document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares or securities in the United States or any province or territory thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.

Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.