

# Introducing the WisdomTree Growth & Momentum Fund

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There are two key challenges to growth investing: 1) identifying companies that are in the early stages of the growth cycle and 2) avoiding the inevitable drawdowns that many growth stocks experience after significant positive performance.

The [WisdomTree U.S. Growth & Momentum Fund \(WGRO\)](#) is designed to solve for these challenges. Using a proprietary underlying Index created by O'Neil Global Advisors, WGRO seeks to: 1) improve the timing of entry points into growth stocks during small pullbacks and 2) avoid holding stocks that are extended.

## **WGRO – A Core U.S. Growth Holding**

As a core U.S. growth holding, WGRO seeks to capture the upside of an aggressive-growth portfolio while limiting the drawdown and volatility that is inherent with growth investing.

WGRO seeks to track the price and yield performance, before fees and expenses, of the O'Neil Growth Index, which is comprised of mid- and large-capitalization companies that provide exposure to high-growth and momentum U.S. listed stocks.

We believe the advantage of WGRO is its use of O'Neil Global Advisors' proprietary underlying Index, which emphasizes fundamental and technical factors. O'Neil was founded in 1963 by William J. O'Neil, a well-known stock picker and investor who has become famous for growth investing. The firm has more than 56 years of history as an accomplished growth investment manager, with strategies that are designed to help clients earn a profit on their portfolio.

## **The Four Proprietary Factors – Emphasizing Both Attractive Technicals and Fundamentals**

The O'Neil factors seek to identify strong long-term stocks that have pulled back and currently offer what are believed to be attractive entry points.

**Pullback**

-A technical factor that measures a stock's long-term momentum and short-term mean reversion characteristics.

-Aims to increase exposure to stable growth names with positive recent price action.

-Pullback =  $(\frac{2}{3} \times \text{Long-Term Momentum Rank}) + (\frac{1}{3} \times \text{Short-Term Mean Reversion})$

**Volatility**

-Measures the standard deviation of log returns over a triangular weighted one-year period.

-Aims to lower the long-term volatility of the portfolio and to slightly increase the exposure to large cap and value.

-Aims to select stocks with steady price returns. When combined with other factors, selecting on low volatility aims to find stable growth stocks.

**DataGraph**

-A composite rating of growth characteristics. O'Neil's proprietary rating based on a formula that assigns certain weights to reported earnings, capitalization, sponsorship, relative price strength, price-volume characteristics, industry group rank, and other factors.

-In O'Neil's and WisdomTree's view, the DataGraph rating is superior to a single-factor approach because it incorporates both technical and fundamental factors.

-Aims to increase exposure to companies exhibiting market leadership and superior fundamental growth characteristics. It increases index exposure to growth and momentum stocks.

**Hotness**

-Measures a stock's recent change in volume compared with historical averages. Effectively a measure of the relative level of speculative interest in a name, since stocks which have recently seen a significant increase in dollar volume can be attributed to the activities of short-term traders.

-Hotness =  $\frac{50\text{-day Average log daily Dollar Volume}}{\text{Adjusted Liquidity}}$

-A proxy for crowding or short-term speculative interest. It aims to lower the expected volatility of the portfolio and avoid stocks with high short-term speculative interest.

## A Unique Way to Access Growth and Momentum

Due to the volatile nature of the growth universe, WGRO is reconstituted and rebalanced monthly to approximately equal weight to avoid idiosyncratic risk.

WGRO's monthly refresh is a key point of differentiation from the largest momentum ETFs in the market today. Competing strategies rebalance, at most, quarterly, and some as infrequently as semi-annually.

By rebalancing monthly, WGRO is able to quickly respond to changes in the market. Its use of technical factors helps the strategy avoid stocks that are extended and, therefore, likely to correct, or fall, in price. Additionally, WGRO does not stay invested in sectors and industries that are significantly lagging the market. Instead, it invests in sectors, industries and stocks that are market leaders technically.

WGRO also stacks up favorably versus benchmark Indexes for growth, like the Nasdaq 100 Index and the Russell 1000 Growth Index—it has a favorable or similar revenue growth, earnings growth and margin profile compared to the benchmarks. WGRO is valued below benchmark Indexes based on price-to-sales and forward price-to-earnings, making the basket attractive on both fundamental growth characteristics and valuations.

|                           | Avg. TTM Revenue Growth | Avg. TTM Reported EPS Growth | Avg. Gross Margin | Avg. Free Cash Flow Margin | Avg. Cash to Assets | Avg. Debt to Assets | Price-to-Sales | Forward Price-to-Earnings |
|---------------------------|-------------------------|------------------------------|-------------------|----------------------------|---------------------|---------------------|----------------|---------------------------|
| O'Neil Growth Index       | 19.60%                  | 24.40%                       | 45.30%            | 12.80%                     | 18.10%              | 34.20%              | 3.3x           | 24.6x                     |
| Nasdaq 100 Index          | 19.90%                  | 32.70%                       | 54.60%            | 24.20%                     | 15.90%              | 30.50%              | 5.7x           | 29.0x                     |
| Russell 1000 Growth Index | 16.70%                  | 23.60%                       | 49.40%            | 13.10%                     | 17.90%              | 37.10%              | 5.0x           | 30.0x                     |
| S&P 500 Index             | 2.20%                   | 6.40%                        | 39.50%            | 15.40%                     | 10.20%              | 34.30%              | 5.0x           | 22.2x                     |

Sources: WisdomTree, FactSet as of 6/24/21. You cannot invest directly in an index. Past performance is not indicative of future results. The metrics referenced in this table to not represent fund performance and there is no guarantee that the metrics above are any indication of future favorable performance.

For definitions of terms in the chart, please visit our [glossary](#).

## Positioning WGRO

We believe WGRO is well suited for investors' allocation to mid- and large-capitalization U.S. growth stocks. The strategy seeks to provide upside during growth-led markets with less downside risk after the market tops and corrects.

In a positive return environment, we believe WGRO's exposure to companies with high DataGraph ratings, like earning and sales growth, can outperform the broader market in a period of normal to moderate economic growth.

Meanwhile, in a drawdown environment, WGRO seeks to avoid technically extended stocks in order to mitigate the magnitude of drawdowns. We believe WGRO can outperform the overall market during periods when extended, high-valuation momentum stocks experience corrections.

We think WGRO can be positioned as the core U.S. aggressive-growth holding for investors seeking the potential for higher returns with lower volatility and drawdowns.

## Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. The Fund invests in mid- and large-capitalization companies that provide exposure to a portfolio of high-growth and momentum U.S. exchange-listed companies. Securities that exhibit momentum characteristics may be more volatile than the market as a whole. Growth stocks, as a group, may be out of favor with the market and underperform value stocks or the overall equity market. The Fund may experience high portfolio turnover in connection with the rebalancing or adjustment of its Index. 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.