Beating the NASDAQ 100 Is Hard! Here's How Our U.S. Quality Growth ETF Did It

Published February 18, 2025

Ayush Babel
Director, Quantitative Research

Matt Wagner, CFA
Director, Research

Key Takeaways

- The WisdomTree U.S. Quality Growth Fund (QGRW) has outperformed the NASDAQ 100 Index by over 15% since its launch in November 2022, as of January 31, 2025, by applying a fundamentals-driven selection process.
- By focusing on high-growth, high-profitability companies across all U.S. exchanges, QGRW has avoided the market cap-based dilution seen in the NASDAQ 100, leading to stronger earnings and sales growth.
- QGRW's strategic over-weight sector allocations—such as in Financials (Visa, Mastercard, Blackstone)—and under-weight allocations—like in Consumer Staples (PepsiCo, Costco)—have contributed to its annual outperformance of 5.6% over QQQ since 2022.

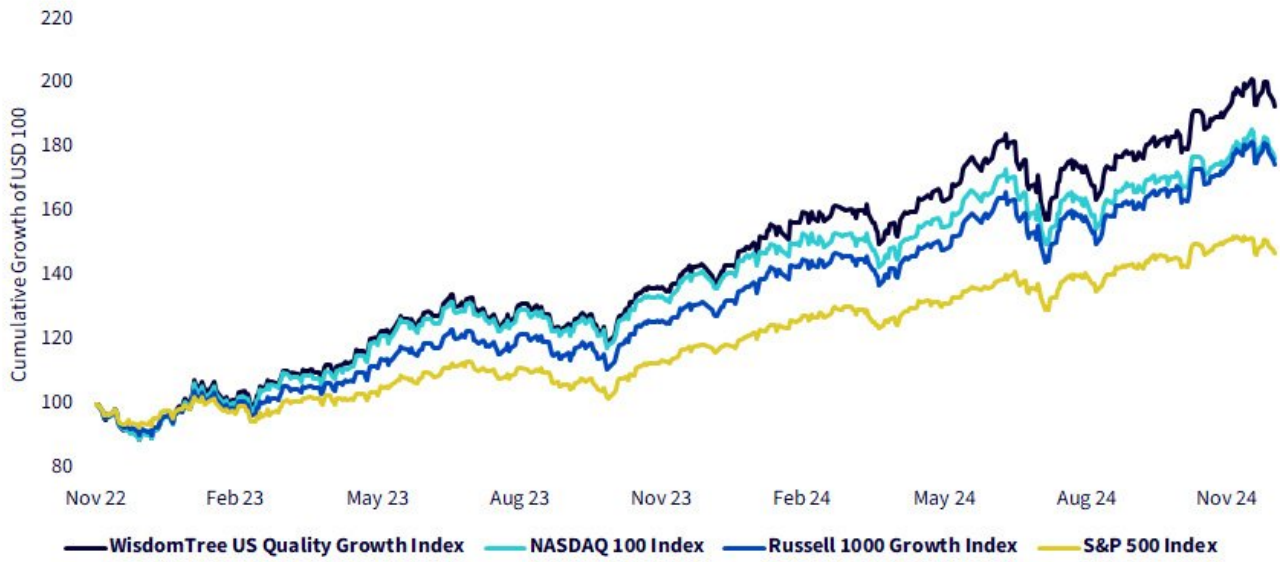
For years, the NASDAQ 100 has been the dominant benchmark for growth investors in the U.S. markets, known for its heavy exposure to technology and innovation-driven companies. The methodology is straightforward—the 100 largest non-financial companies by market capitalization listed on the NASDAQ exchange are selected for inclusion, with constituents weighted by modified market capitalization.

However, this simplicity can come with trade-offs. Since the NASDAQ 100 does not apply fundamental selection criteria, mature, slow-growth companies can enter the index purely due to their size, potentially diluting the growth exposure that investors seek.

In contrast, the WisdomTree U.S. Quality Growth Index deploys a fundamentals-based selection process, identifying high-growth companies with strong profitability metrics across all major U.S. exchanges. This broader and more refined methodology has led to outperformance of more than 15% over the NASDAQ 100 since its launch in November 2022, a period when the NASDAQ 100 itself posted strong gains.

Figure 1: Live Performance vs. NASDAQ 100, Russell 1000 Growth and S&P 500

[Image unavailable]



	WisdomTree US Quality Growth Index	NASDAQ 100 Index	Russell 1000 Growth Index	S&P 500 Index
CAGR	37.17%	31.44%	30.75%	20.46%
Volatility	19.15%	18.44%	16.95%	13.13%
Sharpe	1.94	1.70	1.81	1.56
Beta	1.36	1.31	1.23	1.00

Stock Selection: A Key Differentiator

Figure 2: Stocks Overlap between WisdomTree U.S. Quality Growth Index and NASDAQ 100

Overlap by Count		
Securities in WisdomTree Index	**Constituent Overlap Count**	**Securities in NASDAQ 100**
100	42	100

Overlap by Weight		
Common Securities Weight in WisdomTree Index	**Weight Overlap between WisdomTree Index and NASDAQ 100**	**Common Securities Weight in NASDAQ 100**
76.1%	66.9%	70.1%

Sources: WisdomTree, NASDAQ, as of 12/31/24. You cannot invest directly in an index.

While there is significant overlap in holdings, WisdomTree's selection methodology results in a differentiated portfolio, emphasizing earnings and sales growth as key factors.

Unique Stock Selections: WisdomTree vs. NASDAQ 100

To highlight the contrast in methodology, below are the five largest unique holdings in each index:

Top Unique Stocks in WisdomTree U.S. Quality Growth:

- Eli Lilly & Co
- Visa
- Mastercard
- Blackstone
- ServiceNow

Top Unique Stocks in NASDAQ 100 (excluded from WisdomTree due to profitability and growth screens):

- Costco Wholesale
- T-Mobile US
- Cisco Systems
- PepsiCo
- Linde

Figure 3: Top Unique Stocks in WisdomTree U.S. Quality Growth Index versus Unique Stocks in NASDAQ 100 Index



Sources: WisdomTree, FactSet, Bloomberg, as of 12/31/24. You cannot invest directly in an index.

A few observations from above:

- As of December 31, 2024, the average estimated earnings growth and sales growth for companies included in the WisdomTree Index but excluded from the NASDAQ 100 were 24.5% and 14.5%, respectively.
- Conversely, the average earnings and sales growth for companies included in the NASDAQ 100 but excluded from the WisdomTree Index were just 9.8% and 6.9%, respectively.
- One standout example is ServiceNow (NOW)—a $200+ billion market capitalization company that has grown sales at an annualized rate of 26.5% over the last five years. Analysts project it will grow earnings at over 20.4% annually in the coming years.
- On the other hand, Cisco Systems (CSCO), which is included in the NASDAQ 100 but excluded from the WisdomTree Index, has grown sales at just 0.4% annualized and is expected to deliver less than 7% earnings growth going forward. Despite its relatively slow growth, Cisco remains in the NASDAQ 100 simply due to its market cap and NASDAQ listing—not because it meets high-growth criteria.

Figure 4: Performance Attribution: Intentional Approach to Growth Matters

Fund Attribution

QGRW - WisdomTree U.S. Quality Growth Fund vs. QQQ - Invesco QQQ Trust Series 1

Sector Attribution | As of: 12/31/2024 | QTD | 1Y | Since Inception*

COPY LINK

	Attribution Component				Average Category Weight			Category Performance	
Category	Allocation	Stock Selection	Interaction	Total Attribution	WT Fund Weight	Competitor Weight	+/- Wgt	WT Fund Return	Competitor Return
Information Technology	-0.00%	5.22%	0.20%	5.41%	50.96%	50.05%	0.91%	21.11%	14.66%
Consumer Staples	0.62%	-1.32%	1.19%	0.49%	0.56%	6.40%	-5.84%	-3.01%	9.27%
Consumer Discretionary	0.02%	0.20%	0.01%	0.24%	14.98%	13.32%	1.66%	17.06%	16.22%
Industrials	0.09%	0.15%	-0.07%	0.16%	2.55%	4.67%	-2.12%	15.54%	14.13%
Energy	0.02%	0.01%	0.05%	0.08%	1.56%	0.49%	1.06%	13.35%	12.83%
Materials	-0.04%	-0.24%	0.35%	0.07%	0.64%	1.02%	-0.38%	-0.49%	-0.13%
Real Estate	-0.06%	0.05%	0.05%	0.04%	0.28%	0.24%	0.04%	7.94%	-0.89%
Communication Services	-0.24%	0.15%	0.11%	0.02%	13.23%	15.69%	-2.46%	21.68%	21.32%
Utilities	-0.08%	-0.42%	0.42%	-0.08%	0.00%	1.27%	-1.27%	0.00%	19.59%
Financials	1.01%	-0.06%	-1.10%	-0.15%	8.52%	0.50%	8.01%	14.74%	22.66%
Health Care	0.05%	-0.57%	-0.15%	-0.67%	6.72%	6.35%	0.37%	1.71%	6.99%
Total	1.39%	3.16%	1.06%	5.60%	-	-	-	44.99%	39.39%

Sources: WisdomTree, FactSet, Bloomberg. Returns from 12/15/22 to 12/31/24 (earliest common history) are derived from the total return series. Historical performance is not an indication of future performance, and any investment may go down in value.

Looking at the performance attribution numbers of the WisdomTree U.S. Quality Growth Fund (QGRW), which tracks the WTQGRW Index, relative to the Invesco QQQ Trust (QQQ), which tracks the Nasdaq 100 Index, we can see the breakdown of the outperformance since December 2022. In this two-year period, QGRW has outperformed QQQ by 5.6% on an annualized basis. The outperformance can be partly attributed to the over-weight allocation to Financials, including companies like Visa, Mastercard and Blackstone; and the under-weight allocation to Consumer Staples, avoiding names like PepsiCo and Costco. The other driver of outperformance is stock selection within the Information Technology sector, which is seen with the addition of AppLovin Corp during the December 2023 rebalance, the avoidance of laggards like Intel and the weighting of certain Magnificent Seven names.

Conclusion: A More Holistic Approach to Growth Investing

By applying a fundamentals-based selection process across all U.S. exchanges, the WisdomTree U.S. Quality Growth Fund seeks to provide a better proxy for growth investing than traditional market cap weighted indexes like the NASDAQ 100.

QGRW seeks to:

- Capture high-growth companies from the U.S. stock market, agnostic of the exchange
- Filter out slower-growing companies that might make it into the NASDAQ 100 due to market-cap selection
- Reduce speculative exposure by adding profitability as a selection metric

As investors continue to seek high-quality growth opportunities, a fundamentals-driven approach like WisdomTree's may offer a superior way to access long-term, sustainable growth.

Important Risks Related to this Article

For current Fund holdings, click here. Holdings are subject to risk and change.

There are risks associated with investing, including the possible loss of principal. Please read the Fund's prospectus for specific details regarding the Fund's risk profile. 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 and, 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.