MicroStrategy: Momentum Is Not Growth

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Key Takeaways

- MicroStrategy's inclusion in the Nasdaq 100 highlights how high-momentum stocks can enter growth benchmarks despite lacking profitability and sustainable growth characteristics.
- The WisdomTree U.S. Quality Growth Index (WTQGRW) targets companies with both high profitability and growth, offering a more precise approach than traditional market cap-weighted Indexes like the Nasdaq 100.
- Since its 2022 launch, the WTQGRW has outperformed the Nasdaq 100, driven by superior sales growth and return-on-assets metrics.

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The Nasdaq 100 Index is considered by many as the default benchmark for growth.

The methodology is straightforward—the 100 largest non-financial companies by market cap listed on the Nasdaq exchange. Securities are weighted by modified market capitalization.

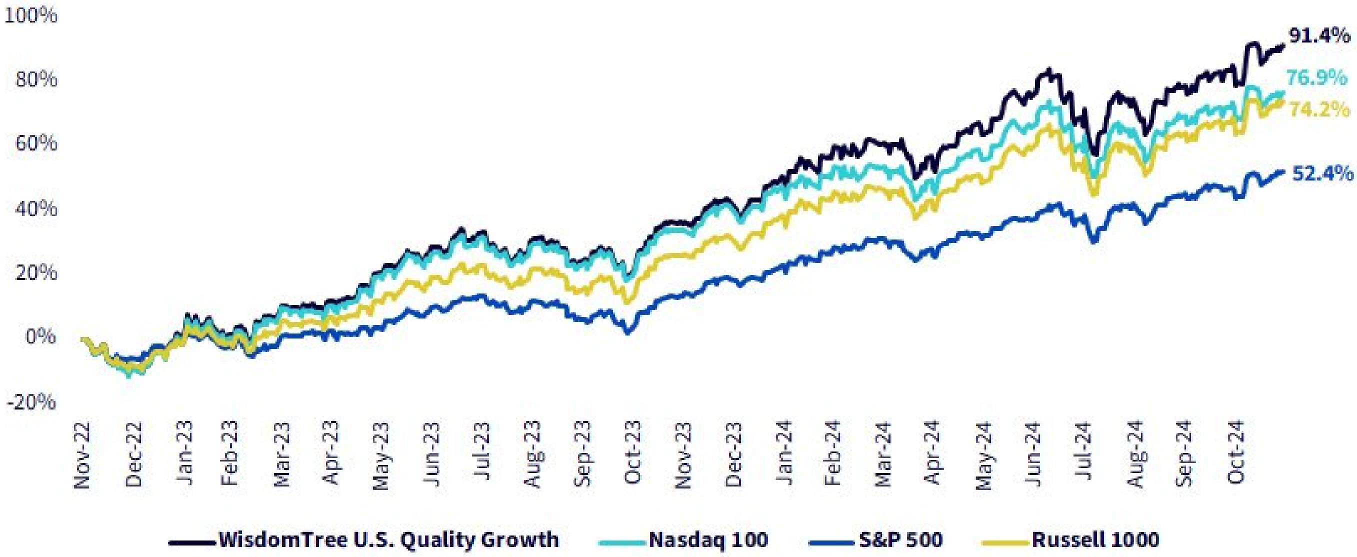
One of the drawbacks to this simplicity for a growth benchmark is that mature, slow-growth companies can populate the Index because of the absence of fundamental selection criteria.

High-momentum stocks without premium profitability or growth can also get into the Index.

This is the case with a company like MicroStrategy—the company has had negative GAAP earnings over the last three quarters and is expected to have negative GAAP earnings in the fourth quarter, as well. After a run-up in its share price this year due to its strategy to use leverage to buy Bitcoin, MicroStrategy was added to the Nasdaq 100 on December 13.

In our view, WisdomTree has created a better way to capture growth—the WisdomTree U.S. Quality Growth Index (WTQGRW). Since its launch near the end of 2022, figure 1 shows it has outperformed the Nasdaq 100 while being more directly targeted to high-growth, high-profitability companies.

Figure 1: Cumulative Index Total Returns



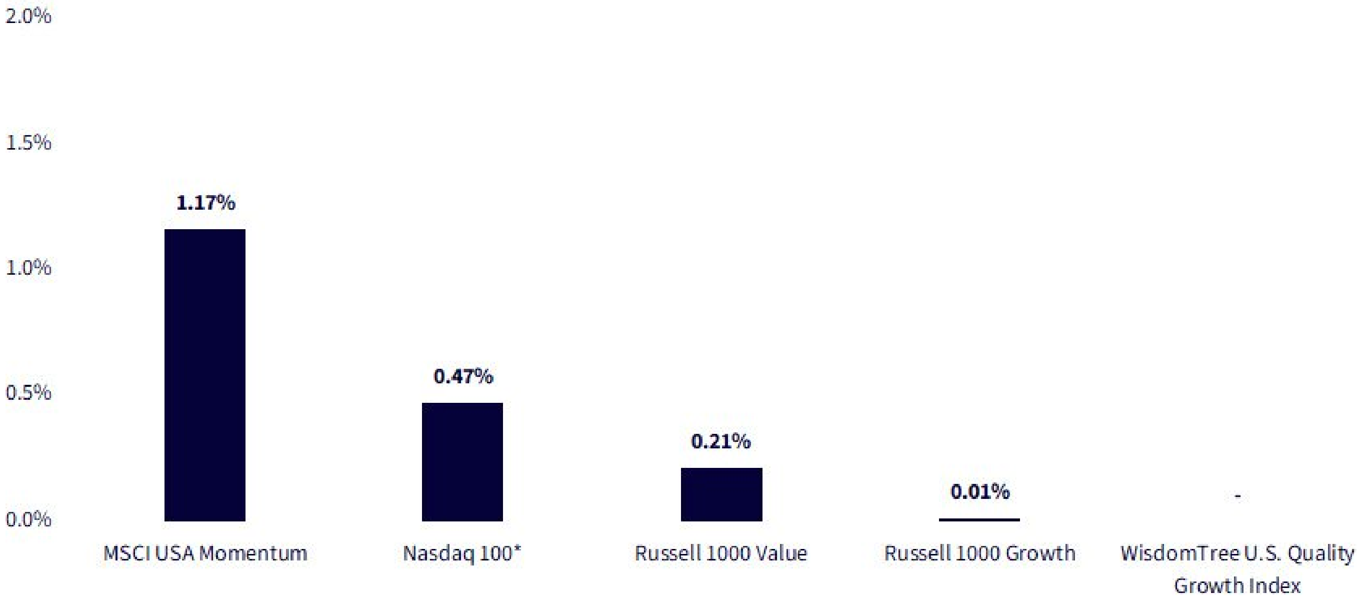
Sources: WisdomTree, Russell, Nasdaq, S&P, 11/30/22–11/30/24. You cannot invest directly in an index. Past performance is not indicative of future returns.

MicroStrategy in the Russell 1000 Value

MicroStrategy, which has never been included in WTQGRW, is not a clear growth stock. For example, the company has its market cap split between growth and value in the Russell style Indexes, as seen in figure 2.

What is clear is that it is a high-flying momentum stock, and momentum does not always equal growth.

Figure 2: MicroStrategy Index Weights



*Sources: WisdomTree, Russell, Nasdaq, 11/29/24. *Nasdaq 100 weight based on estimates as of 12/10/24. You cannot invest directly in an index.*

Targeted Growth: WisdomTree U.S. Quality Growth Index

WTQGRW reconstitutes on a semiannual basis each June and December, refreshing its exposure to companies with the fundamental characteristics of high profitability and high growth.

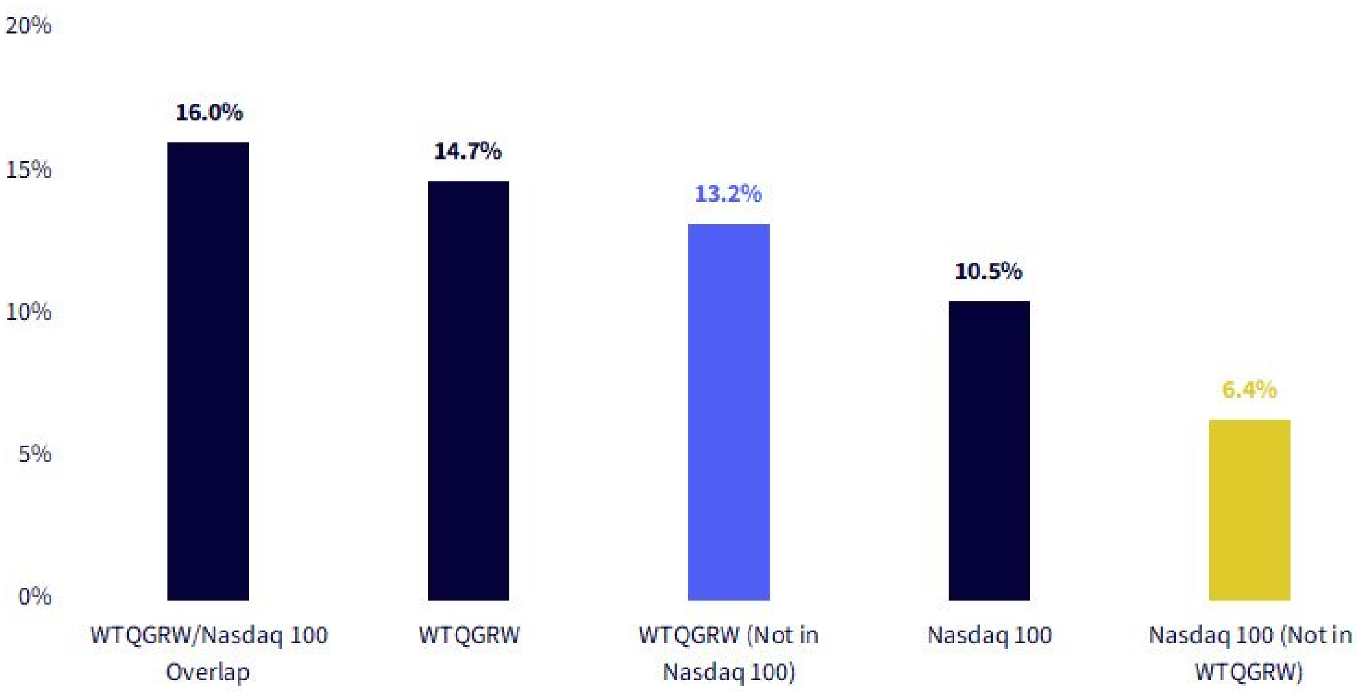
Like the Nasdaq 100, WTQGRW selects 100 securities. The Indexes hold 40 securities in common, with a common holdings score (or overlap) of 62%.

The chart in figure 3 shows the difference in trailing five-year sales growth rates between WTQGRW and the Nasdaq 100 Index.

A few observations:

- WTQGRW has a median sales growth more than 400 basis points higher than the Nasdaq 100 Index.
- The median sales growth for companies *included* in the Index but *excluded* from the Nasdaq 100 is 13.2%.
- The median sales growth for companies *included* in the Nasdaq 100 but *excluded* from the WisdomTree Index is just 6.4%.

Figure 3: Median Trailing Five-YearSales Growth



Sources: WisdomTree, Nasdaq, FactSet, as of 11/29/24. WisdomTree U.S. Quality Growth (WTQGRW) holdings based on post-rebalance holdings. The rebalance was effective at the close of 12/11/24. You cannot invest directly in an index.

A Better Approach to Growth: The WisdomTree U.S. Quality Growth Fund (QGRW)

The WTQGRW is a market cap-weighted Index that consists of companies with quality and growth characteristics. The top 500 U.S. companies—listed on any of the major U.S. exchanges—by market capitalization are ranked on a composite score of two fundamental factors: growth and quality, which are equally weighted.

The Index is comprised of the 100 U.S. companies (the first 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 (i.e., 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 trailing three-year average return on assets.

Figure 4 below summarizes the Index's investment process.

QGRW was launched in December 2022 to seek to track the price and yield performance, before fees and expenses, of WTQGRW.

Figure 4: Investment Process

Rebalance Frequency/Weighting/Caps
Semiannual rebalance (June and December)
Market cap-weighted
Individal security caps (15%)

The Index is intended to be a high-conviction, relatively concentrated growth portfolio aimed to over-weight the largest quality growth companies. As a result, the Index has a high percentage of its weight (56%) in the top 10 holdings, as seen in figure 5.

Figure 5: WisdomTree U.S. Quality Growth Index Top Holdings

Name	Sector	Weight
NVIDIA Corporation	Information Technology	11.41%
Apple Inc.	Information Technology	10.77%
Microsoft Corporation	Information Technology	9.47%
Alphabet Inc. Class A	Communication Services	5.59%
Amazon.com, Inc.	Consumer Discretionary	5.47%
Meta Platforms Inc Class A	Communication Services	4.32%
Tesla, Inc.	Consumer Discretionary	3.30%
Broadcom Inc.	Information Technology	3.03%
Eli Lilly and Company	Health Care	3.03%

Source: WisdomTree, as of 11/29/24. Holdings based on post-rebalance holdings. The rebalance was effective at the close of 12/11/24. Holdings and weights subject to change. You cannot invest directly in an index.

At each semiannual rebalance, the Index systematically refreshes exposure to these high-quality and -growth characteristics. This can be seen by the significant improvements on profitability and growth characteristics relative to the S&P 500.

For example, the return on assets (ROA) for the Index is more than three times that of the S&P 500 while also having a trailing five-year sales growth of more than seven percentage points higher.

Figure 6: Index Characteristics

Characteristics	WisdomTree U.S. Quality Growth	Russell 1000 Growth	S&P 500
Profitability			
Return on Equity (ROE)	24.0%	22.8%	14.8%
Return on Assets (ROA)	14.4%	10.8%	4.5%
Leverage (Assets/Equity)	1.66x	2.12x	3.29x
Growth			
Trailing Five-Year Sales Growth	21.8%	20.4%	14.0%
Trailing Five-Year Earnings Growth	34.9%	31.0%	18.5%
Forward Earnings Growth Estimates	21.6%	19.3%	15.7%

Sources: WisdomTree, FactSet, Russell, S&P, as of 11/29/24. WisdomTree U.S. Quality Growth (WTQ-GRW) holdings based on post-rebalance holdings. The rebalance was effective at the close of 12/11/24. Return on equity, return on assets and leverage are adjusted for investments in intangible assets. You cannot invest directly in an index.

Important Risks Related to this Article

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

There are risks associated with investing, including the 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.