

# Spotlight

## MODIFYING THE NASDAQ'S MOMENTUM

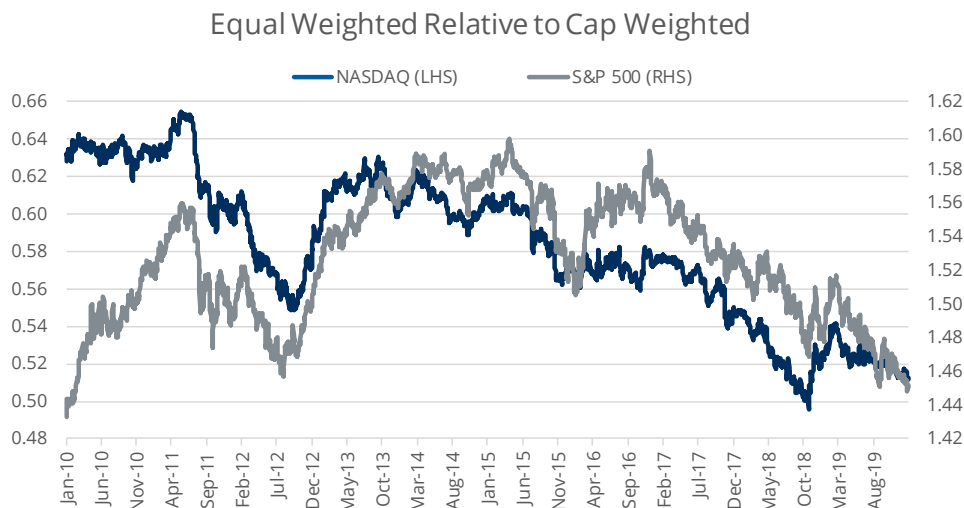
In 2019, the ten largest constituents in the S&P 500® represented over 30% of its 31.48% total return, which simply means that the largest companies did best. When it comes to the NASDAQ-100®, the ten largest companies delivered a whopping 60% of the index's nearly 40% return as names like Apple, Microsoft, and Facebook all delivered gains over 55% last year.

While the momentum behind the largest members in the NASDAQ remains powerful, investors may want to consider transforming their exposure away from a traditionally cap weighted approach to an equal weighted one so as to maintain all of the same names, but with a balanced allocation to each component.

### WHAT WE'VE SEEN

- Large cap outperformance was especially strong in 2019, but smaller caps have suffered over the last decade with the NASDAQ-100 up 18.04% annualized and its equal weighted counterpart up only 15.42% annualized. The largest names in the benchmark have continued to lead performance higher, frustrating those long-standing believers of the premium associated with owning smaller cap stocks.
- Equal-weighted approaches of any kind may see a potential increase in risk coming from greater exposure to the historically more volatile, smaller names, but that has not been the experience with the NASDAQ-100®. While the average weighted market cap is reduced by 80% using an equal-weighted approach, the average realized volatility for both a cap-weighted and an equal-weighted approach over the last 10 years has been within 0.07% of each other.

## SMALLER NAMES IN THE NASDAQ-100 STRUGGLED RELATIVE TO LARGER ONES OVER THE LAST DECADE

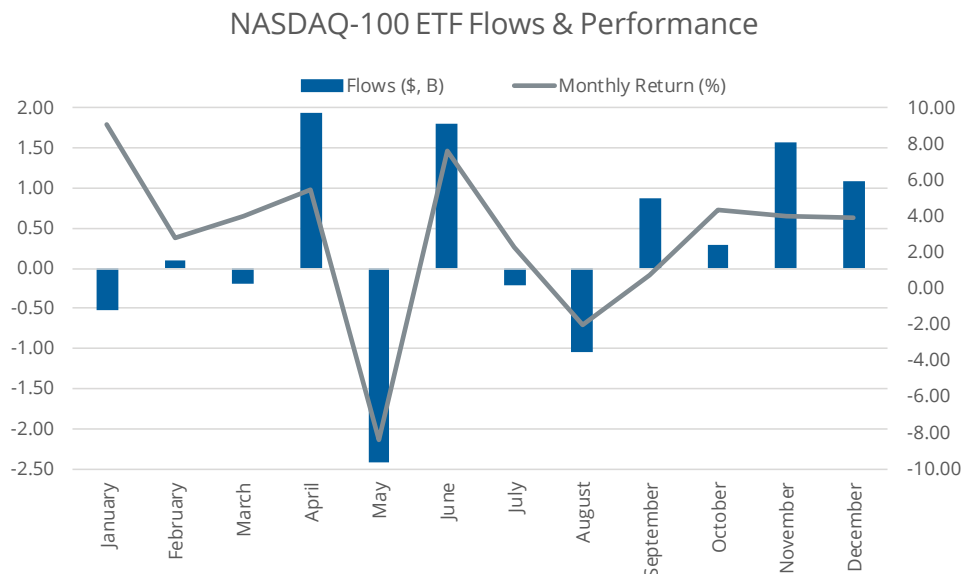


Source: Bloomberg Finance, L.P., as of December 31, 2019. Past performance is not indicative of future results. One cannot invest directly in an index.

## MONEY IN MOTION

- In 2019, investors added \$3.28 billion to NASDAQ-100®-related ETFs with over \$1.8 billion in both April and June that saw the index return 5.46% and 7.62%, respectively. These inflows bookended May's \$2.42 billion of outflows when equity markets saw a notable pullback due to fears of the worst regarding the U.S. – China trade deal.
- U.S. stocks ended the year on a high note with the NASDAQ-100® up 12.99% in Q4 sparking investors to follow by adding \$2.96 billion to NASDAQ-100®-related ETFs over the last three months of the year.

## FLOWS FOLLOWED PERFORMANCE FOR MUCH OF 2019



Source: Bloomberg Finance, L.P., as of January 1, 2019 to December 31, 2019. Data represents the monthly net flows of U.S.-listed non-Leveraged and Inverse NASDAQ-100-related ETFs and the total returns of the NASDAQ-100. Past performance is not indicative of future returns. One cannot invest directly in an index.

## WHAT'S NEXT?

With the top ten holdings representing over 53% of the index, the NASDAQ-100 is considerably top-heavy as mega caps dominate. While investors stand likely to benefit from this in a year like 2019, they may suffer on a relative basis should those names pull back, making an equal-weighted approach attractive to investors who want to maintain the same name exposure, but in a more balanced, diversified way.

- This more balanced exposure, while most apparent at the cap level, also applies at the sector level, with information technology maintaining the highest weight, but moving to under 40% from 47%. Communication services comes down from 21.29% to 14.09% with health care and industrials seeing the largest increases. Interestingly, the weighted average market cap moves from \$537 billion to \$106 billion, so the exposure remains decidedly large cap, but no longer extremely mega cap.
- For those expecting markets to continue rallying, but that a leadership change away from technology may not be imminent, could find an equal-weighted approach to be a prudent means of maintaining a high level of exposure to tech and tech-related sectors, but diversifying the influence that each name plays in total returns.

## AN EQUAL WEIGHTED APPROACH SEES MORE BALANCED EXPOSURES

Name	NASDAQ-100 Equal Weighted (%)	NASDAQ-100 (%)	Difference (%)
Apple Inc.	1.09	11.94	-10.85
Microsoft Corporation	1.01	10.66	-9.65
Amazon.com, Inc.	1.04	8.08	-7.05
Facebook, Inc.	1.04	4.54	-3.50
Alphabet Inc. - Class A	0.52	4.25	-3.73
Alphabet Inc. - Class C	0.52	4.25	-3.73
Intel Corporation	0.98	2.83	-1.85
Comcast Corporation	1.00	2.26	-1.25
Cisco Systems, Inc.	0.98	2.21	-1.23
PepsiCo, Inc.	0.96	2.07	-1.11
Top 10 Holdings	9.13	53.09	-43.96

Source: Bloomberg Finance, L.P. as of December 31, 2019. Past performance is not indicative of future returns. One cannot invest directly in an index.

## IMPLEMENTATION IDEAS

- The Direxion NASDAQ-100<sup>®</sup> Equal Weighted Index Shares [QQQE] offers investors an inexpensive option for gaining access to securities in the NASDAQ-100<sup>®</sup> without the concentrated exposure to the largest names in the index found in cap-weighted approaches.

## DEFINITIONS

- **NASDAQ 100 Index:** The NASDAQ 100<sup>®</sup> includes 100 of the largest non-financial securities listed on NASDAQ<sup>®</sup> weighted by market capitalization.
- **NASDAQ 100 Equal Weighted Index:** The NASDAQ 100<sup>®</sup> Equal Weighted Index includes 100 of the largest non-financial securities listed on NASDAQ<sup>®</sup>, but instead of being weighted by market capitalization, each of the constituents is initially set at 1.00% at rebalancing. The index is reviewed and adjusted annually in December, but replacements may be made any time throughout the year. The index is rebalanced quarterly in March, June, September and December.

*An investor should carefully consider a Fund's investment objective, risks, charges, and expenses before investing. A Fund's prospectus and summary prospectus contain this and other information about the Direxion Shares. To obtain a Fund's prospectus and summary prospectus call 646-846-0181 or visit our website at [www.direxion.com](http://www.direxion.com). A Fund's prospectus and summary prospectus should be read carefully before investing.*

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**Direxion Shares Risks** – An investment in the Fund involves risk, including the possible loss of principal. The Fund is non-diversified and includes risks associated with concentration that results from the Fund's investments in a limited number of securities. Risks of the Fund include Index Correlation/Tracking Risk, Index Tracking Strategy Risk, Currency Exchange Rate Risk, Foreign Securities Risk, risks related to investment in a specific industry or sector, and risks associated with the market capitalizations of the securities in which the Fund may invest. Please see the summary and full prospectuses for a more complete description of these and other risks of the Fund.