

Reduce Concentration Risk with This Equal-Weighted ETF

Benchmark equity indexes such as the S&P 500® Index and the Nasdaq-100® Index are weighted by market capitalization—the more valuable a company, the more influence it has on the overall index. As a result, the performance contribution of the largest companies can significantly exceed those of smaller constituents. Another way of saying this is that a select few stocks can have an outsized effect on the index.

By contrast, most of the stocks in these indexes sport market capitalizations below the average of the whole. Sometimes, concentration in mega-caps can be a good thing: In a bull market, these companies can power the market higher, delivering solid returns for investors with exposure to the index. In choppy markets, however, there is a powerful case for an equal-weighted approach, one that allots the same importance to each stock in the index.

The Upside to an Equal-Weight Approach

2022 revealed the weakness behind a market-cap based approach to the Nasdaq-100®. Companies such as Meta Platforms (Facebook), Apple and Microsoft acted as a drag on the index. Meanwhile, an equal-weighted basket of the index outperformed its cap-weighted counterpart, as smaller companies did not see their shares decline as much.

Typically, an equal-weighted approach can introduce more risk to a broad-based portfolio of large, mid, and small caps, given that smaller companies tend to be more volatile than large-cap stocks. But this has not been the case with the Nasdaq-100®, whose smallest constituents are still considered large-cap. Over the last decade, equal- and market-cap weighted strategies have exhibited similar levels of 30-day volatility.

Introducing QQQE from Direxion

The Direxion Nasdaq-100® Equal Weighted Index Shares (QQQE) offers investors exposure to all the companies in the Nasdaq-100®, without an outsized position in any one stock, by tracking the Nasdaq-100 Equal-Weighted™ Index (NETR™). The Index is rebalanced quarterly for consistent equal weighting, after regular market fluctuations. QQQE may provide diversification benefits for those who want greater exposure to the non-mega cap tech stocks that currently have such a big effect on the Nasdaq-100®'s performance. It can also potentially reduce concentration risk, which reared its ugly head in 2022.

As market regimes change, investors may be rewarded for changing their tactics. Rather than having too many eggs in the index basket, they can spread their risk around. With QQQE, individuals and institutions alike can gain equal exposure to each stock in the Nasdaq-100® index, no matter its market cap.

It may just help investors sleep a bit better at night.

The Nasdaq-100 Index® (NDX®) is composed of 100 of the largest, most actively traded companies listed on the Nasdaq stock exchange. This index includes companies from a broad range of industries, excluding those that operate in the financial industry, such as banks and investment companies.

The NASDAQ 100® Equal Weighted Index (NETR) is the equal weighted version of the NASDAQ-100 Index® which includes 100 of the largest domestic and international non-financial securities listed on NASDAQ® Stock Market based on market capitalization. Equal weighting is a method of weighting index stocks whereby the same exposure is provided to both the smallest and largest companies included in the Index. The Index is rebalanced quarterly and reconstituted annually. One cannot directly invest in an index.

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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 Risk, Index Strategy Risk, Depositary Receipt Risk, Foreign Securities Risk, Cash Transaction Risk, Tax Risk, as well as risks related to the market capitalizations of the securities, and the specific industries or sectors, 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.

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