

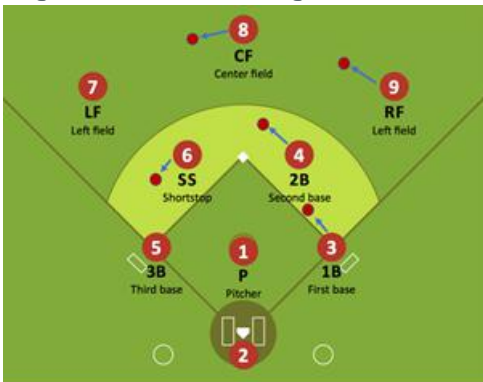
CORE FUNDS ARE ‘SHIFTING OVER’

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Grant me the use of a baseball strategy analogy for a phenomenon that we are witnessing in the fund management industry.

In figure 1, I added blue arrows and little red dots to show how to shift the team’s positioning for a batter who typically hits toward third base. In baseball, this is sometimes called “shifting over.”

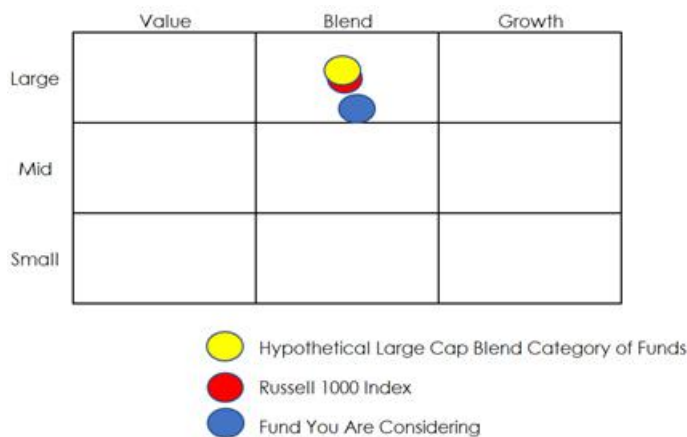
Figure 1: “Shifting Over”



Sources: ConceptDraw, WisdomTree.

Now imagine a stock market that has not been dominated one way or another by growth or value stocks. This is an example of the style box image for a **large cap blend** fund you may be considering.

Figure 2: Hypothetical Large Cap Core Fund, Normal Environment



Source: WisdomTree.

In figure 2, the yellow dot, representing a hypothetical basket of large cap blend funds, is dead center in the “large cap blend” square, as is the **Russell 1000 Index** of large cap stocks, as many of us would expect. Because a fund you are considering has a large blend mandate, the blue dot may fall anywhere within that square. I put it a little below the yellow and red dots at random (it could just as easily be above them,

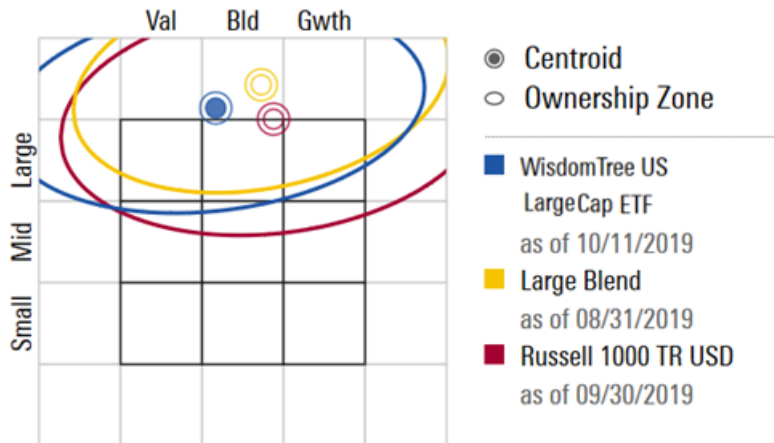
to the right, to the left, etc.).

Here’s a concern: In the real world right now, the yellow and red dots aren’t in the center. As we see in the following charts, they are “shifting.”

Figure 3 shows the Morningstar image for the [WisdomTree U.S. LargeCap Fund \(EPS\)](#), which “shifts over” toward the “Value” style box to its left while staying in the center column, “the core.” Now look at the yellow dot for the large cap blend category; it encompasses hundreds of funds that, “on net,” are all the way over on the border wall with “Growth.” In fact, the Russell 1000 Index is doing the same thing.

And this market has melted so high that all three dots are pushing above the nine style box squares, into the gray squares at the top—the “Mega Cap” zone that lies above Large Caps.

Figure 3: Large Cap Core? Try Mega-Cap Closet Growth



Source: Morningstar, as of 10/11/19. You cannot invest directly in an index. Subject to change. The data in the MorningStar Style Box™ may vary due to availability on the MorningStar site.

The MorningStar Style Box™ reveals a fund’s investment strategy. For equity funds, the vertical axis shows the market capitalization of the stocks owned, and the horizontal axis shows investment style (value, blend or growth). For fixed income funds, the vertical axis shows the average credit quality of the bonds owned, and the horizontal axis shows the interest rate sensitivity as measured by a bond’s duration (short, intermediate or long).

The Morningstar Ownership Zone™ provides details about a portfolio’s equity investment style by showing the range of stock sizes and styles. A portfolio’s Ownership Zone is derived by plotting each stock in the fund’s portfolio within the proprietary Morningstar Style Box™. The shaded area represents the center 75% of the fund’s assets, and it provides an intuitive visual representation of the area of the market in which the fund invests. A “centroid” plot in the middle of the Ownership Zone represents the weighted average of all the fund’s holdings. A fund that is concentrated will have a small Ownership Zone relative to the area of the style box, and a broadly diversified fund will have an Ownership Zone that stretches across many sizes and styles. Over a period of time, the shape and location of a fund’s Ownership Zone may vary.

Figure 4 shows one reason money managers can be tempted to drift toward growth: performance chasing.

Figure 4: 5-Year Returns through 9/30/19

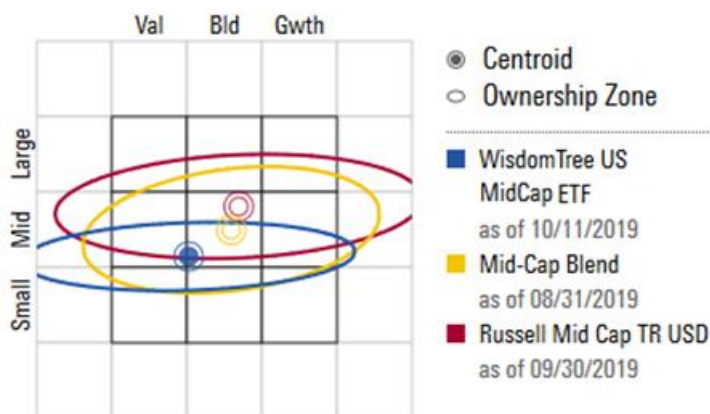
Large Cap	Russell 1000 Value Index	7.79%
	Russell 1000 Index	10.61%
	Russell 1000 Growth Index	13.38%
Mid Cap	Russell Midcap Value Index	7.55%
	Russell Midcap Index	9.10%
	Russell Midcap Growth Index	11.11%
Small Cap	Russell 2000 Value Index	7.17%
	Russell 2000 Index	8.18%
	Russell 2000 Growth Index	9.07%

Sources: Bloomberg, WisdomTree. Past performance is not indicative of future results. You cannot invest directly in an index. Index performance does not represent actual fund or portfolio performance. A fund or portfolio may differ significantly from the securities included in the index. Index performance assumes reinvestment of dividends but does not reflect any management fees, transaction costs or other expenses that would be incurred by a portfolio or fund, or brokerage commissions on transactions in fund shares. Such fees, expenses and commissions could reduce returns. WisdomTree, its affiliates and their independent providers are not liable for any informational errors, incompleteness or delays or for any actions taken in reliance on information contained herein.

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

This is what I get for [WisdomTree U.S. MidCap ETF \(EZM\)](#), which I chose because Morningstar categorizes it as a Mid Cap Blend. One more surge upward in this stock market and the Russell “Mid” Cap could end up in Large Cap territory, while small caps could end up in the Mid Cap boxes.

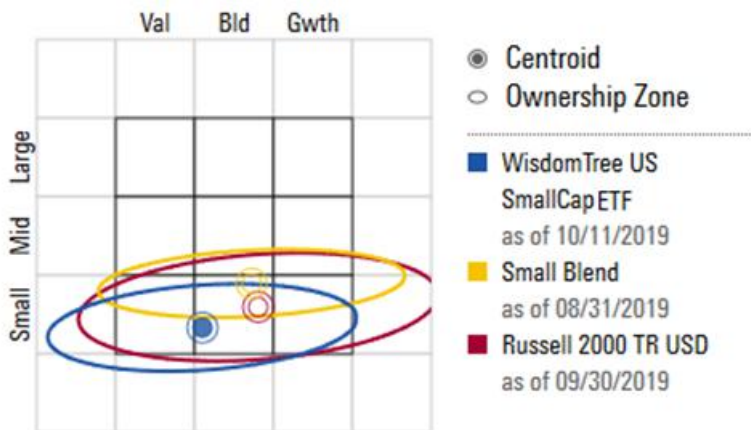
Figure 5: Russell Midcap Index Is Shifting Upward and Rightward



Source: Morningstar. You cannot invest directly in an index. Subject to change. The data in the MorningStar Style Box™ may vary due to availability on the MorningStar site.

Small caps can be particularly egregious. The [WisdomTree U.S. SmallCap Fund \(EES\)](#) “shifts toward” pure small company exposure and value. But one may think the Law of Large Numbers, which says that an experiment conducted enough times will converge to the expected value, might put the small cap blend industry as a collective into the center of the blend square. However, in figure 6, the Small Blend category (the yellow dot) has an appearance of Small/Mid (SMID).

Figure 6: Small-Cap Core or ‘SMID’ Growth-Lite?



Source: Morningstar. You cannot invest directly in an index. Subject to change. The data in the MorningStar Style Box™ may vary due to availability on the MorningStar site.

“Shifting over” to growth investing sometimes works fine—like when growth stocks outperform. And, in recent years, they have. But what happens if value investing comes back?

Unless otherwise stated, all data from Morningstar, as of 10/11/19.

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