

Bottom-Up Fundamentals Matter: Know What You Own

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Benchmarks don't define outcomes. How well do you know what's inside your passive investments?

If you're looking to avoid a beta bubble, here are a few facts you should consider before deciding to invest.

340 ETFs

Microsoft is included in 340 ETFs making it the most widely held stock by number of ETFs in the S&P 500 (Intel, Procter & Gamble, Verizon and Apple round out the top 5 and are included in over 300 ETFs, respectively)

100%

ETFs may capture 100% of the upside, however, in times of volatility passive vehicles are unable to mitigate any of the potential losses with tactical changes (liquidity becomes an issue as smaller and less-traded names take disproportionate losses when investors try to exit in a downturn)

18%

of the Russell 1000 Value Index maintains high debt levels as measured by Net Debt/EBITDA

44%

of the Russell 2000 Index is illiquid, trading less than \$5M daily

33%

of the Russell 2500 Index is unprofitable

12%

of the Russell 1000 Value Index is unprofitable

Source: Strategas Research Partners, 2019

Bloomberg L.P., 2019

When did passive investing become a bet on interest rates?

Passive investments are strongly tied to interest rates. This can lead to a number of unintended consequences:

Active Managers tend to be underexposed to yield factors (and likely for good reason given asset allocation demands.)

Illiquidity is a rising issue, particularly in small caps, as indiscriminate passive flows bid up low-quality stocks equally.

Rising interest rates create better decisions regarding returns on capital as the cost of capital rises for companies and lesser business models suffer disproportionately to higher quality businesses.

Take Action: Learn More About Our High-Conviction Approach to U.S. Equities



High-Quality Focus

We believe high-quality businesses that are operating well with undervalued earnings potential offer competitive risk-adjusted returns.



High-Conviction Investing

Focused best ideas portfolio with historically high active share. Number of securities typically ranges from 50 to 70.



Team-Based Approach

Our strategy utilizes a team-based fundamental bottom-up approach to identify high-quality companies.