

Capturing Momentum through Sector Rotation

Dorsey Wright® Focus Five Index™ (DWAQNFF™)

May 2022

Sara Mehle, *ESG Index Strategist, Nasdaq Global Indexes*

Introduction

The Dorsey Wright® Focus Five Index (DWAQNFF) launched on February 4, 2014, and is designed to measure the performance of five sector funds from a universe of First Trust sector-focused ETFs that demonstrate powerful Relative Strength characteristics. Between November 2017 and January 2021, DWAQNFF maintained a steady overweight to the broader technology sector due to tech's superior Relative Strength versus other areas of the US equity market. On January 25, 2021, however, the First Trust Dow Jones Internet Index Fund (FDN) was removed from the Index, decreasing DWAQNFF's technology exposure to 40%. This change marked the start of what was to be DWAQNFF's gradual rotation out of technology and into stronger sectors, according to the Relative Strength methodology, such as energy and industrials. With DWAQNFF's removal of the First Trust Nasdaq-100 Technology Sector ETF (QTEC) in March 2022 (more information below), the Index's technology exposure is now 0% for the first time in its eight-year history, speaking to the adaptive nature of the Relative Strength methodology that drives DWAQNFF.

Figure 1: Dorsey Wright Focus Five Index Sector Inventory

Sector	Symbol	ETF Name	Sector	Symbol	ETF Name
Healthcare	FBT	First Trust NYSE Arca Biotechnology Index Fund	Non-Cyclical	FXG	First Trust Consumer Staples AlphaDEX® Fund
Technology	FDN	First Trust Dow Jones Internet Index Fund	Healthcare	FXH	First Trust Health Care AlphaDEX® Fund
Real Estate	FRI	First Trust S&P REIT Index Fund	Technology	FXL	First Trust Technology AlphaDEX® Fund
Non-Cyclical	FTXG	First Trust Nasdaq Food & Beverage ETF	Energy	FXN	First Trust Energy AlphaDEX® Fund
Healthcare	FTXH	First Trust Nasdaq Pharmaceuticals ETF	Financial	FXO	First Trust Financial AlphaDEX® Fund
Technology	FTXL	First Trust Nasdaq Semiconductor ETF	Industrial	FXR	First Trust Industrials/Producer Durables AlphaDEX® Fund
Energy	FTXN	First Trust Nasdaq Oil & Gas ETF	Utilities	FXU	First Trust Utilities AlphaDEX® Fund
Financial	FTXO	First Trust Nasdaq Bank ETF	Materials	FXZ	First Trust Materials AlphaDEX® Fund
Industrial	FTXR	First Trust Nasdaq Transportation ETF	Cyclicals	QQXT	First Trust NASDAQ-100 Ex-Technology Sector Index Fund
Cyclicals	FXD	First Trust Consumer Discretionary AlphaDEX® Fund	Technology	QTEC	First Trust NASDAQ-100 Technology Index Fund

Dorsey Wright Focus Five Index Methodology

At all times, the Dorsey Wright Focus Five Index is composed of five ETFs representing at least three broad sectors. Upon reconstitution, the five funds that make up the Index are considered to be the strongest on a Relative Strength basis out of a universe of 20 sector-based ETFs from First Trust. To construct the Index, a Relative Strength Matrix first compares and aggregates the relative price relationships of each sector fund in the inventory versus one another, ranking all 20 ETFs from strongest to weakest as shown in Figure 2. The sector ETFs with the strongest Relative Strength rank near the top of the Matrix, while relatively weaker funds fall to the bottom. Once ranked, any ETF whose Matrix Rank falls outside of the top three within its designated sector is ineligible for inclusion, as well as any security that ranks below the Matrix's designated sell threshold to ensure that only the strongest funds are considered from at least three broad sectors. Finally, any ETF not currently in the Index as of the Reconstitution Reference Date is removed from consideration if its Matrix Rank falls outside of the buy threshold. Securities still eligible are ordered along two dimensions: first by inclusion in the Index as of the Reconstitution Reference Date (yes to no) and second by Matrix Rank (first to last). The five first ordered securities are selected for inclusion in the Index. When a change is made, the Index is rebalanced so that each position is equally weighted at 20%.

Figure 2: Dorsey Wright Focus Five Index RS Matrix Ranking

Rank	Symbol	ETF Name	Buys	X's	Total
1	FTXN	First Trust Nasdaq Oil & Gas ETF	19	19	38
2	FXN	First Trust Energy AlphaDEX® Fund	17	17	34
3	FXR	First Trust Industrials/Producer Durables AlphaDEX® Fund	15	9	24
4	FTXO	First Trust Nasdaq Bank ETF	14	15	29
5	FXZ	First Trust Materials AlphaDEX® Fund	13	10	23
6	FTXR	First Trust Nasdaq Transportation ETF	12	8	20
7	FRI	First Trust S&P REIT Index Fund	11	13	24
8	FXO	First Trust Financial AlphaDEX® Fund	11	12	23
9	FXD	First Trust Consumer Discretionary AlphaDEX® Fund	11	4	15
10	QTEC	First Trust NASDAQ-100 Technology Index Fund	11	2	13
11	FXG	First Trust Consumer Staples AlphaDEX® Fund	7	15	22
12	FTXH	First Trust Nasdaq Pharmaceutical ETF	7	5	12
13	FXL	First Trust Technology AlphaDEX® Fund	6	5	11
14	FXU	First Trust Utilities AlphaDEX® Fund	5	13	18
15	QQXT	First Trust NASDAQ-100 Ex-Technology Sector Index Fund	5	6	11
16	FTXG	First Trust Nasdaq Food & Beverage ETF	4	13	17
17	FXH	First Trust Health Care AlphaDEX® Fund	3	2	5
18	FBT	First Trust NYSE Arca Biotechnology Index Fund	1	4	5
19	FDN	First Trust Dow Jones Internet Index Fund	1	0	1
20	FTXL	First Trust Nasdaq Semiconductor ETF	0	0	0

(For Illustrative Purposes Only) (For Illustrative Purposes Only)

Adapting to Changes in Sector Leadership

In accordance with the methodology, the Index is reviewed for changes in Relative Strength every two weeks. While the Index has the chance to reconstitute 26 times per year, it has only been reconstituted 17 times since

inception in 2014, averaging two times per year. Within those 17 reconstitutions, DWANQFF has experienced a total of 19 changes, where one change is defined as one sector ETF being added and another sector ETF being removed. Over a third of the changes took place between 2020 and 2021 as new sector leaders emerged amidst elevated volatility following the COVID-19 US equity market rebound. Year-to-date through April 30, 2022, DWANQFF has already experienced three changes, outpacing the index's annual average with more than seven months left to close out 2022.

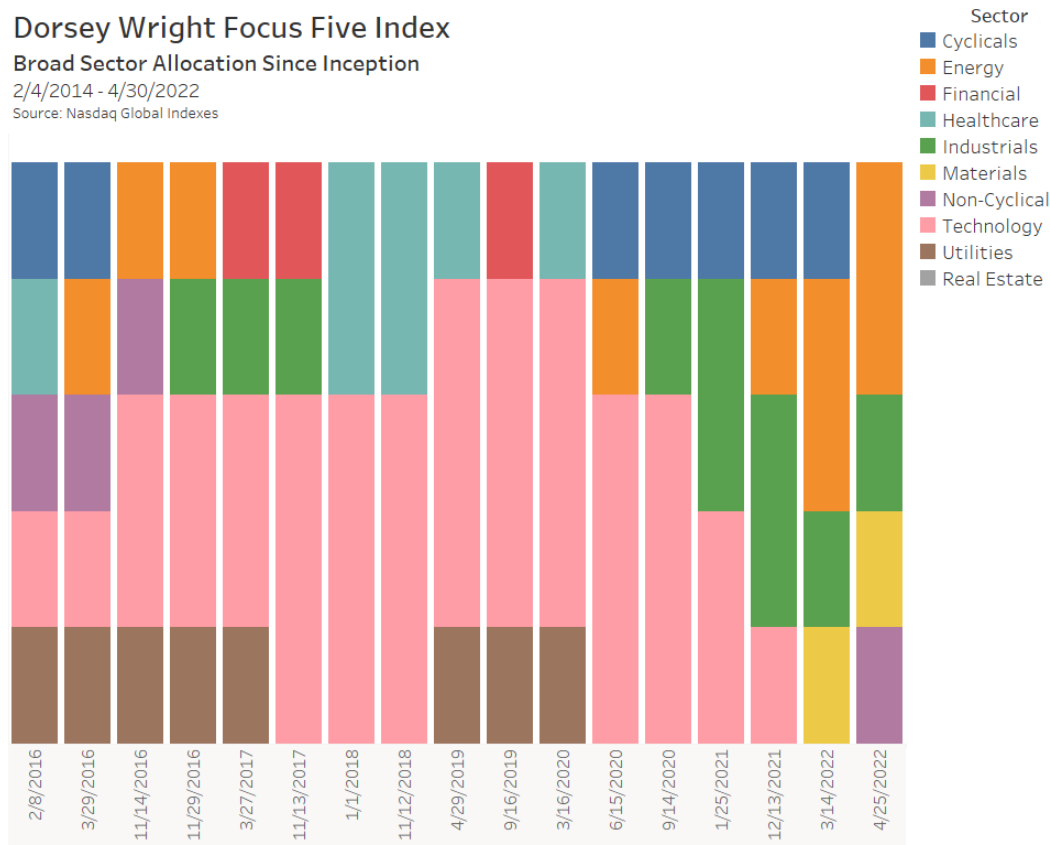
As mentioned above, the Index universe consists of 20 sector-based First Trust ETFs. The Index inventory can change as new sector products are launched, or existing sector products are no longer a fit for the universe.

Figure 3: Index Changes (since inception)

IN			OUT		
Effective Date	ETF Name	Symbol	Effective Date	ETF Name	Symbol
2/8/2016	First Trust Utilities AlphaDEX® Fund	FXU	2/8/2016	First Trust NYSE Arca Biotechnology Index Fund	FBT
3/29/2016	First Trust Energy AlphaDEX® Fund	FXN	3/29/2016	First Trust Health Care AlphaDEX® Fund	FXH
11/14/2016	First Trust NASDAQ-100 Technology Index Fund	QTEC	11/14/2016	First Trust Consumer Discretionary AlphaDEX® Fund	FXD
11/29/2016	First Trust Industrials/Producer Durables AlphaDEX® Fund	FXR	11/29/2016	First Trust Consumer Staples AlphaDEX® Fund	FXG
3/27/2017	First Trust Nasdaq Bank ETF	FTXO	3/27/2017	First Trust Energy AlphaDEX® Fund	FXN
11/13/2017	First Trust Technology AlphaDEX® Fund	FXL	11/13/2017	First Trust Utilities AlphaDEX® Fund	FXU
10/1/2018	First Trust NYSE Arca Biotechnology Index Fund	FBT	10/1/2018	First Trust Nasdaq Bank ETF	FTXO
11/12/2018	First Trust Health Care AlphaDEX® Fund	FXH	11/12/2018	First Trust Industrials/Producer Durables AlphaDEX® Fund	FXR
4/29/2019	First Trust Utilities AlphaDEX® Fund	FXU	4/29/2019	First Trust Health Care AlphaDEX® Fund	FXH
9/16/2019	First Trust Financial AlphaDEX® Fund	FXO	9/16/2019	First Trust NYSE Arca Biotechnology Index Fund	FBT
3/16/2020	First Trust Health Care AlphaDEX® Fund	FXH	3/16/2020	First Trust Financial AlphaDEX® Fund	FXO
6/15/2020	First Trust Consumer Discretionary AlphaDEX® Fund	FXD	6/15/2020	First Trust Health Care AlphaDEX® Fund	FXH
6/15/2020	First Trust Energy AlphaDEX® Fund	FXN	6/15/2020	First Trust Utilities AlphaDEX® Fund	FXU
9/14/2020	First Trust Nasdaq Transportation ETF	FTXR	9/14/2020	First Trust Energy AlphaDEX® Fund	FXN
1/25/2021	First Trust Industrials/Producer Durables AlphaDEX® Fund	FXR	1/25/2021	First Trust Dow Jones Internet Index Fund	FDN
12/13/2021	First Trust Nasdaq Oil & Gas ETF	FTXN	12/13/2021	First Trust Technology AlphaDEX® Fund	FXL
3/14/2022	First Trust Materials AlphaDEX® Fund	FXZ	3/14/2022	First Trust NASDAQ-100 Technology Index Fund	QTEC
3/14/2022	First Trust Energy AlphaDEX® Fund	FXN	3/14/2022	First Trust Nasdaq Transportation ETF	FTXR
4/25/2022	First Trust Food & Beverage ETF	FTXG	4/25/2022	First Trust Consumer Discretionary AlphaDEX® ETF	FXD

Despite DWANQFF's steady overweight in the Technology sector between November 2017 and January 2021, there were still changes taking place in the Index as shown in Figure 3. Sectors like Healthcare, Utilities, and Financials rotated in (and out of) the Index as DWANQFF continued its adaptation to shifting sector trends and changes in Relative Strength. The one constant during this three-year timeframe, however, was the superior momentum coming from Tech, specifically within the Internet sub-sector. Technology's long-term leadership position began to deteriorate in early 2021 as growth stocks underperformed their value counterparts, resulting in the Index decreasing its Tech exposure to 40% when it removed the First Trust Dow Jones Internet Index Fund (FDN). Just under one year later in December of 2021, the First Trust Technology AlphaDEX® Fund (FXL) was removed and replaced with Oil & Gas exposure [via the First Trust Nasdaq Oil & Gas ETF (FTXN)] as the Energy sector roared into a position of leadership. Tech's relative weakening continued as a result of factors like skyrocketing inflation, rising rates, and the Ukraine/Russia war. In March of 2022, the one remaining tech ETF in the Dorsey Wright Focus Five Index, the First Trust NASDAQ-100 Technology Index Fund (QTEC), fell enough in the Relative Strength rankings to warrant its removal from DWANQFF, bringing the Index's Technology exposure to 0% for the first time in its eight-year history. On the same day that QTEC was removed, the First Trust Transportation ETF (FTXR) also rotated out of DWANQFF on March 14, 2022, while Materials and Energy rotated in via the First Trust Materials AlphaDEX® Fund (FXZ) and the First Trust Energy AlphaDEX® Fund (FXN), respectively. With the most recent reconstitution and rebalance, DWANQFF removed its exposure to the First Trust Consumer Discretionary AlphaDEX® ETF (FXD) while rotating into the First Trust Food & Beverage ETF (FTXG). Currently, the Dorsey Wright Focus Five Index has a 40% allocation to Energy, while the remaining 60% is split evenly at 20% each between Non-Cyclicals, Materials, and Industrials. While there is no way of knowing just how long these current sector trends will remain in place, we do know that DWANQFF will continue to adapt over the long-term using Relative Strength rotation.

Figure 4: Historical Sector Allocation



Dorsey Wright Focus Five Index Performance

It is important to note that Relative Strength-driven strategies such as the Dorsey Wright Focus Five Index often experience changes alongside periods of underperformance while trends shift gears. That said, it is the process of rotation out of sector laggards and into sector leaders that drives the long-term success of such momentum-based strategies. Changes confirm that the Index is adapting to new market trends and allows the strategy to capture the “next big thing” in terms of leadership. Year-to-date through April 30, 2022, the Dorsey Wright Focus Five Total Return Index™ (DWANQFFT™) has fallen by -6.87%. Despite this loss, the Index has outperformed the S&P 500 Total Return Index by over 6% on a total return basis. Since its inception, the Dorsey Wright Focus Five Total Return Index has posted a cumulative return of 170.09%, while the S&P 500 Total Return Index has returned 175.91% through April 30, 2022.

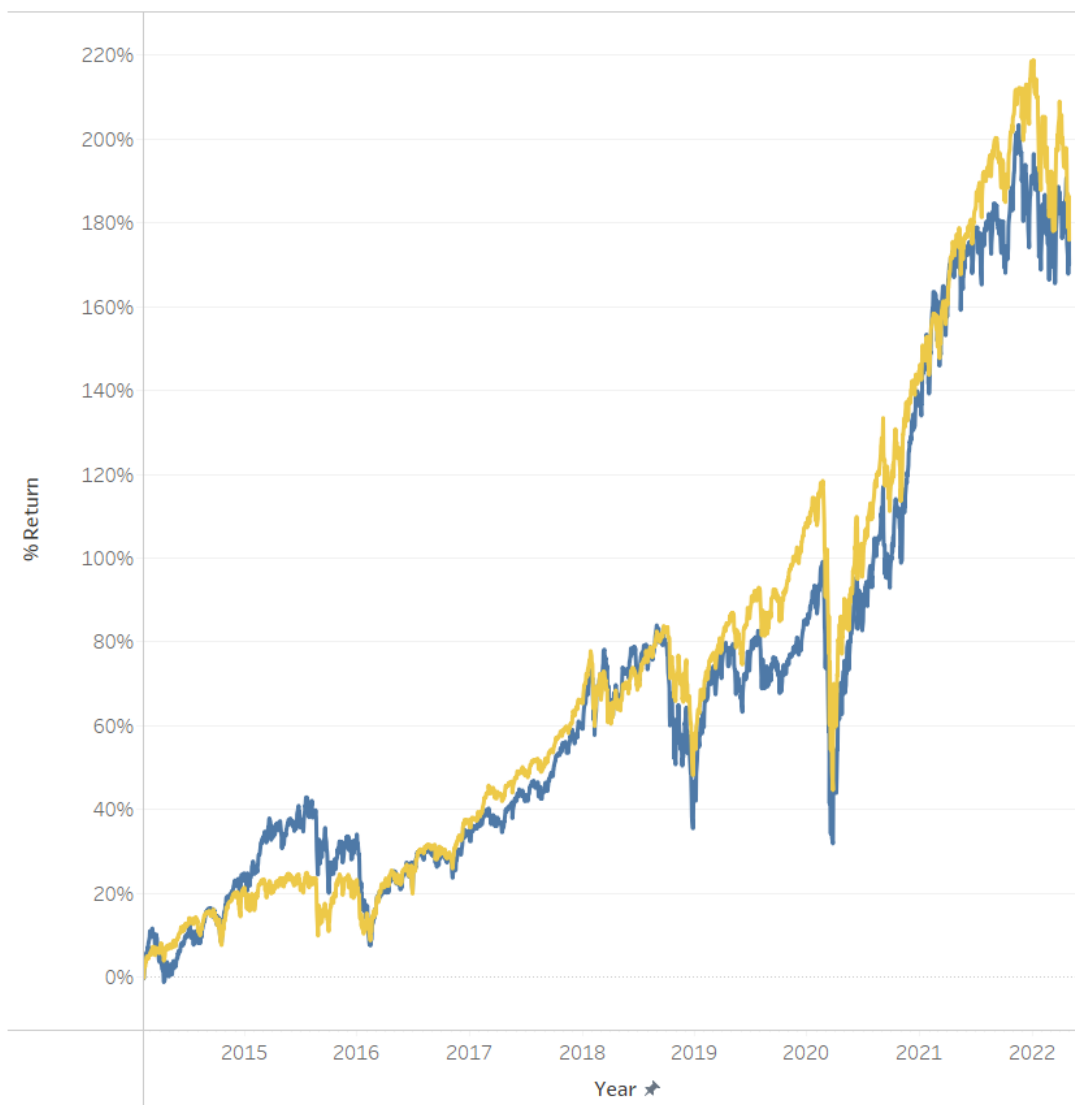
Figure 5: Index Performance

Dorsey Wright Focus Five Index Performance Since Inception

2/4/2014 - 4/30/2022

Source: Nasdaq Global Indexes, FactSet

Legend
■ DWANQFF
■ SPX



Summary: The Dorsey Wright Focus Five Index (DWAQNFF) is designed to measure the performance of five sector funds from a universe of First Trust sector-focused ETFs that demonstrate powerful Relative Strength characteristics. Between November 2017 and January 2021, DWAQNFF maintained a steady overweight in the broader technology sector. With recent changes, however, DWAQNFF has removed all technology exposure for the first time in its eight-year history.

Accessing the Index: The Dorsey Wright Focus Five Index (DWAQNFF) is available to investors through the First Trust Dorsey Wright Focus Five ETF (Nasdaq: FV). For more information on the ETF, visit the First Trust site here: <https://www.ftportfolios.com/retail/etf/etfsummary.aspx?Ticker=FV>.

Source: Nasdaq Global Indexes, Nasdaq Dorsey Wright, Bloomberg, FactSet

Disclaimer:

Nasdaq® is a registered trademark of Nasdaq, Inc. The information contained above is provided for informational and educational purposes only, and nothing contained herein should be construed as investment advice, either on behalf of a particular security or an overall investment strategy. Neither Nasdaq, Inc. nor any of its affiliates makes any recommendation to buy or sell any security or any representation about the financial condition of any company. Statements regarding Nasdaq-listed companies or Nasdaq proprietary indexes are not guarantees of future performance. Actual results may differ materially from those expressed or implied. Past performance is not indicative of future results. Investors should undertake their own due diligence and carefully evaluate companies before investing. **ADVICE FROM A SECURITIES PROFESSIONAL IS STRONGLY ADVISED.**

© 2022. Nasdaq, Inc. All Rights Reserved.