

Capturing Sector Strength through Rotation

Dorsey Wright® Focus Five Index™ (DWAQNFF™)

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Introduction

The Dorsey Wright Focus Five Index (DWAQNFF) launched on February 4, 2014, and is designed to measure the performance of five sector exchange-traded funds from the First Trust Portfolios product line that demonstrate powerful Relative Strength characteristics. Since early 2021, the Index has rotated out of its overweight tilt towards the technology sector and has shifted towards energy and industrials. This rotation has occurred in response to the relative weakening of technology compared to the other sectors in the Dorsey Wright Relative Strength Matrix Ranking.

Dorsey Wright Focus Five Index Methodology

To determine the Relative Strength of the First Trust sector assets, the Index utilizes a Point and Figure Relative Strength Matrix. The Index seeks to capture the strongest areas within the sector lineup, holding five sector ETFs at all times. The actual securities are identified by reviewing the universe of 19 First Trust Sector ETFs (as listed in Figure 1), each of which could potentially be placed in the Index.

Figure 1: Dorsey Wright Focus Five Index Sector Inventory

Symbol	ETF Name	Symbol	ETF Name
FBT	First Trust NYSE Arca Biotechnology Index Fund	FXN	First Trust Energy AlphaDEX® Fund
FDN	First Trust Dow Jones Internet Index Fund	FXR	First Trust Industrials/Producer Durables AlphaDEX® Fund
FXD	First Trust Consumer Discretionary AlphaDEX® Fund	QQXT	First Trust NASDAQ-100 Ex-Technology Sector Index Fund
FXG	First Trust Consumer Staples AlphaDEX® Fund	QTEC	First Trust NASDAQ-100-Technology Sector Index Fund
FXH	First Trust Health Care AlphaDEX® Fund	FRI	First Trust S&P REIT Index Fund
FXO	First Trust Financials AlphaDEX® Fund	FXL	First Trust Technology AlphaDEX® Fund
FXU	First Trust Utilities AlphaDEX® Fund	FXZ	First Trust Materials AlphaDEX® Fund
FTXN	First Trust Nasdaq Oil & Gas ETF	FTXG	First Trust Nasdaq Food & Beverage ETF
FTXO	First Trust Nasdaq Bank ETF	FTXR	First Trust Nasdaq Transportation
ISHP	First Trust S-Network E-Commerce ETF		

The Dorsey Wright Focus Five Index (DWANQFF) is a rules-based, transparent, and tactical strategy that uses Relative Strength to compare and rank a universe of 19 First Trust sector ETFs. The Index inventory is reviewed and can change as new products are launched, or existing products are no longer a fit for the universe. At any given time, DWANQFF is comprised of five ETFs from the universe of First Trust sector ETFs listed above that display the most powerful Relative Strength characteristics. The inventory is evaluated on a bi-monthly basis for changes in market leadership and has the capability to rotate into any combination of the funds within the investable inventory. An ETF held within the Index is only sold when it falls sufficiently out of favor versus the other members of the inventory on a Relative Strength basis. Only once an ETF in the Index is removed can a new addition be made. The Index will add the highest ranked ETF in the Matrix that is not already held in the Index. When an addition or deletion is made, the Index is rebalanced so that each position is equally weighted.

Figure 2: Dorsey Wright Focus Five Index RS Matrix Ranking

Rank	Ticker	Name	Buys	X's	Total
1	FTXN	First Trust Nasdaq Oil & Gas ETF	18	18	36
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 Financials AlphaDEX Fund	11	12	23
9	FXD	First Trust Consumer Discretionary AlphaDEX Fund	11	4	15
10	QTEC	First Trust NASDAQ-100-Technology Sector IndexSMFund	11	2	13
11	FXG	First Trust Consumer Staples AlphaDEX Fund	7	15	22
12	ISHP	First Trust S-Network E-Commerce 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 IndexSMFund	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 IndexSM Fund	0	0	0

(For Illustrative Purposes Only)

Adapting to Changes in Sector Leadership

Since the beginning of 2016, the DWANQFF Index has experienced 16 changes, where one change is defined as one sector ETF being added and another sector ETF being removed. Over a third of the changes occurred during the volatile period in the market in 2020 due to the emergence of new sector leaders as the market rebounded off of the COVID-19 pandemic market lows. The biggest theme so far in the last year is the rotation out of technology into sectors like energy and industrials.

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 Sector 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 Financials 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 Financials 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

From November 2017 up until January 2021, DWANQFF was overweight technology, as the Index was comprised of three technology sector-based ETFs. This can be seen in the chart below. During this time, there was rotation but it was mostly taking

place in areas such as energy, financials, and healthcare. The one constant during this time period was the strength in technology, with internet and broad technology exhibiting robust leadership. However, in 2021, two out of the three technology components, internet and broad technology, rotated out of the Index, shifting it away from a tactical overweight.

Figure 4: Industry Composition Changes (since inception)

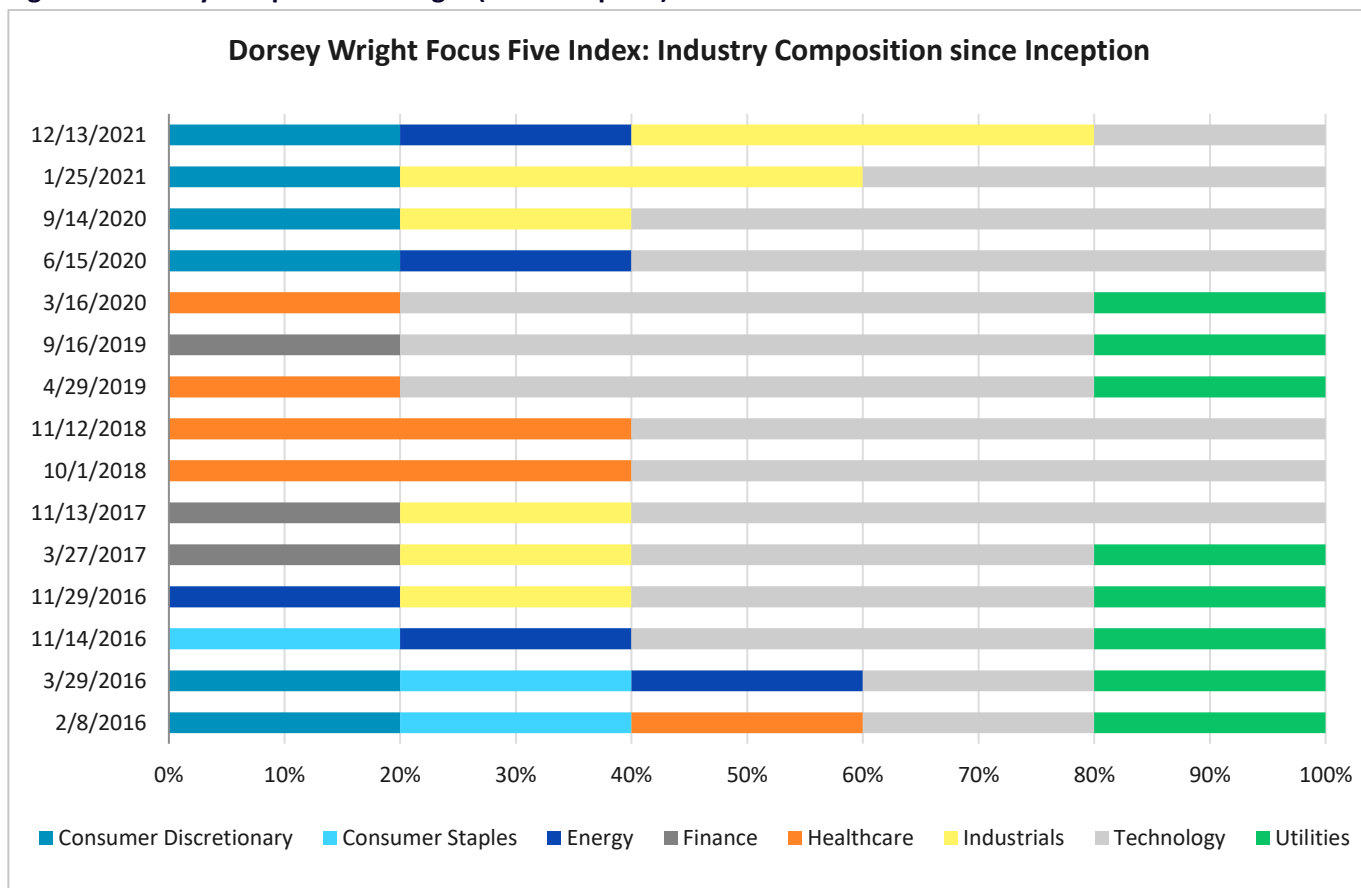
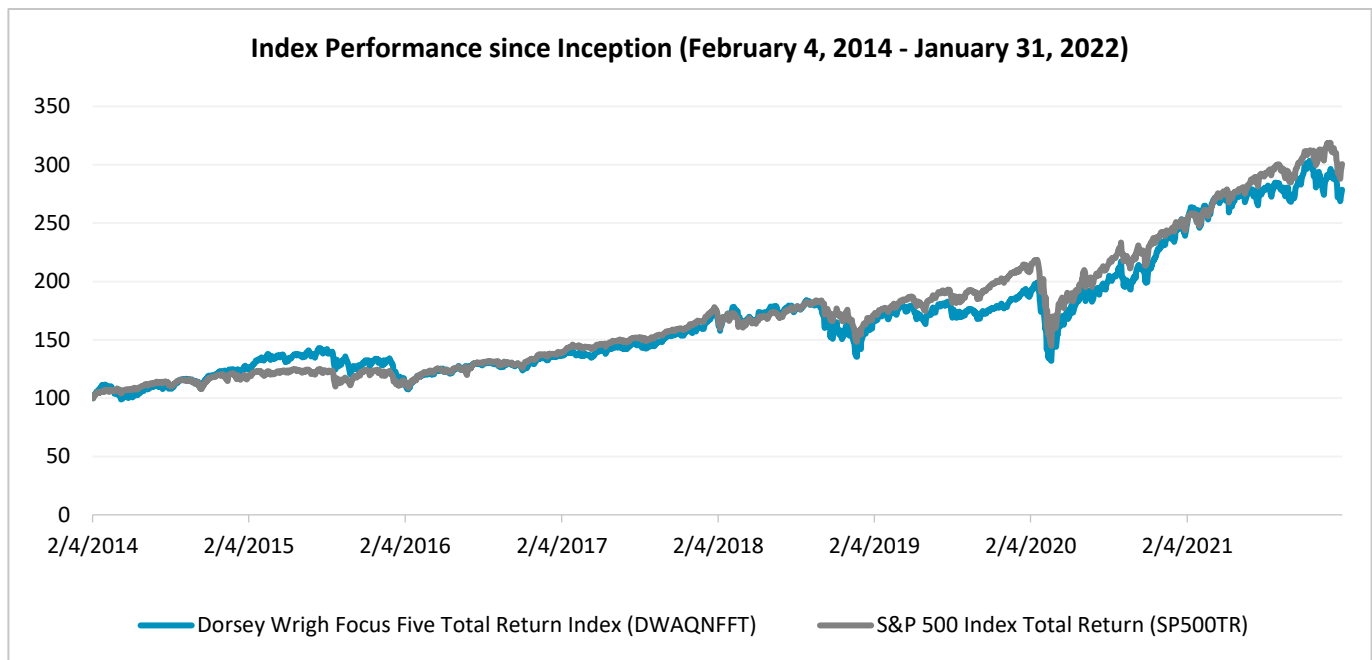


Figure 5: Index Performance

It’s important to note that we often see changes occur during a period of underperformance for the strategy. These two things, change (turnover) and underperformance, often come together, as the most common periods of weakness for Relative Strength portfolios are those encompassing a great deal of rotation. That said, it is this process of rotation that drives the long-term success of such strategies. Change means the strategy is adapting to new trends in the market and sector leadership, and allows the strategy to capture the next, new theme of leadership. Since inception, the Dorsey Wright Focus Five Total Return Index™ (DWANQFFT™) has a cumulative return of 178.68%, while the S&P 500 Total Return Index (SP500TR) has returned 200.45% through January 31, 2022.



(Source: Nasdaq, FactSet) (As of 1/31/2022)

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>

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