

The Nasdaq Generations 5 Index™: Combining the Best of Nasdaq with Cutting-Edge Volatility Control

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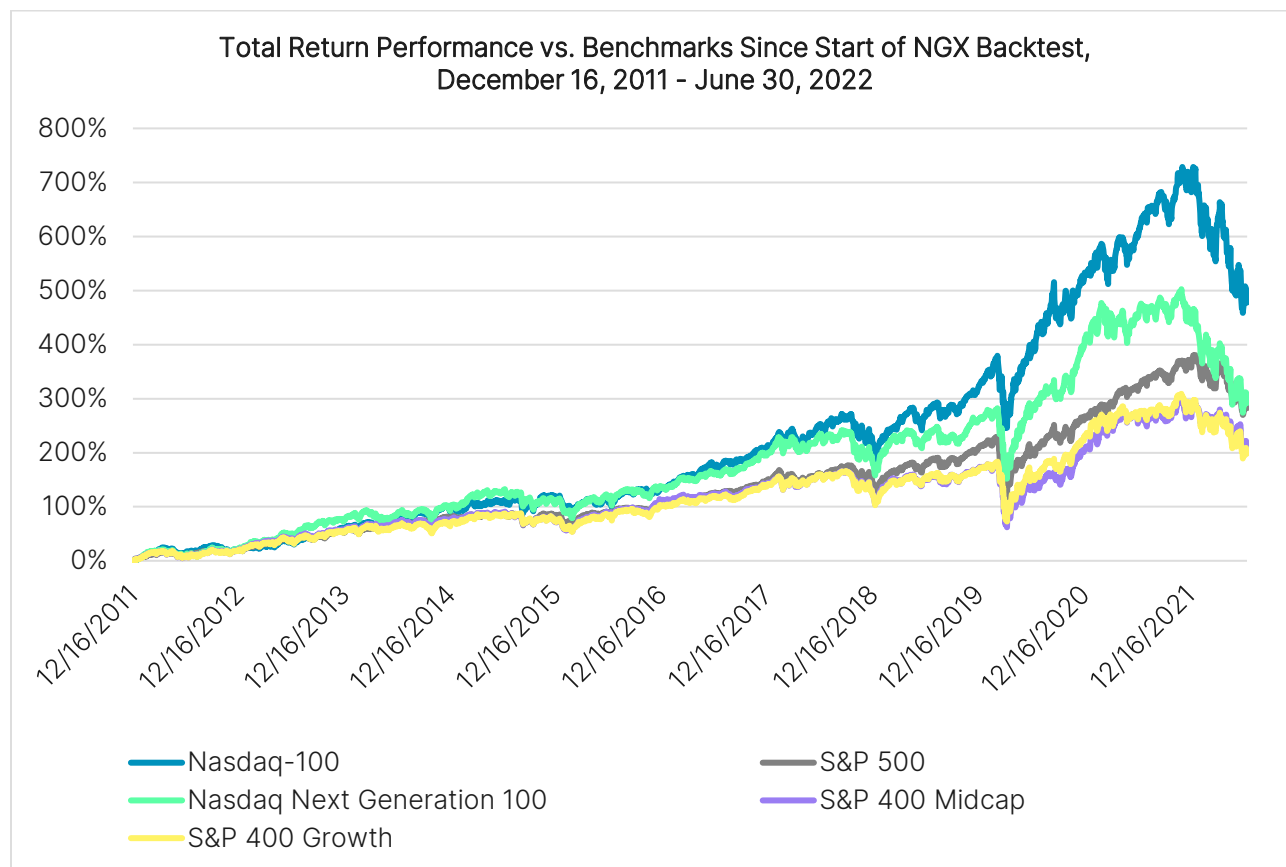
The Nasdaq Stock Exchange was established in 1971 as the world's first fully electronic exchange, and immediately began attracting IPOs from some of the most innovative companies in the world. In 1985, the Nasdaq-100® Index (NDX®) was launched, tracking 100 of the largest domestic and international non-financial companies listed on Nasdaq. Over the course of several decades, many of the world's largest companies have gained entry to NDX, including Intel, Apple, Microsoft, Cisco Systems, Alphabet, Amazon, Meta Platforms, NVIDIA, and Tesla. Investors in products tracking NDX have been handsomely rewarded, with total return performance more than doubling that of the S&P 500 over the span of the past decade and a half (590% vs. 242% respectively, trailing 15 years total returns as of June 30, 2022). A major driver of this outperformance has been an outsized focus by Nasdaq-100 companies on innovation, specifically R&D and other investments into intangible assets. Whether measured by R&D expenditure as reported on company financial statements, by patent filings, or by other methods, the "innovation gap" between the Nasdaq-100 and the S&P 500 has been consistent and substantial, despite the growing overlap between the two indexes.

In addition to its focus on innovation, the Nasdaq-100's unique sector exposure has allowed the index to avert deep fundamental damage during multiple economic and financial crises, including the Great Financial Crisis of 2008-9, the Oil Supply Glut of 2014-6, and of course, the arrival of Covid-19 in March 2020. With an overweight towards "new economy" sectors like Technology, Consumer Discretionary, and Healthcare, the Nasdaq-100 has felt rather immune to intense risk episodes disproportionately impacting Financials, Energy, and other "old economy" sectors vulnerable to macroeconomic shocks – such as a credit crisis, a deadly pandemic, or a major new geopolitical conflict disrupting global supply chains of raw commodities. (For further reading on what drove the index's outperformance during Covid-19 in the context of other major market crises, [see our previously published research](#).)

The Nasdaq-100 has generated impressive outperformance against the broader US large cap equity market, as well as most segments of global equities, for a very long time. Its unique exposure – tilted to high-growth, innovative companies with above-average fundamental strength – has underpinned its outperformance, as well as its modest valuation premium vs. the broader market. After a painful correction in the first six months of 2022, the index is now trading well within its long-run historical valuation range. Several structural advantages position the index's constituents to endure a period of elevated inflation and/or historically high interest rates better than the S&P 500, and [our analysis suggests the Nasdaq-100's recent underperformance has been somewhat unjustified by the balance of fundamental factors](#).

The Nasdaq-100 of 2022 resembles neither its 1970s-era equivalent from a constituent perspective, nor its early-2000s equivalent from a size, volatility, or fundamental analysis perspective. Since our earliest reliable records dating back to 2003, NDX has grown its earnings at a compound annual growth rate of 21.0% vs. 10.1% for SPX; its revenues at 12.5% vs. 4.7%; and its dividends at 24.3% vs. 7.5%. As an index, it is more profitable per employee and more profitable per dollar of revenue, while being substantially less leveraged, than the S&P 500. The substantial pricing power and cash cushions of many of its largest constituents position the Nasdaq-100 for continued growth and outperformance even in an era of macroeconomic stress and uncertainty.

In August 2020, Nasdaq launched the Nasdaq Next Generation 100 Index™ (NGX™) to track the next 100 largest domestic and international non-financial companies listed on Nasdaq. With its similar methodology, NGX serves as a natural extension of NDX – from the realm of the biggest large cap Nasdaq innovators into a hybrid of smaller large caps and true midcaps. Its history of constituents is chock-full of storied companies such as Tesla, Netflix, DocuSign and CrowdStrike that have graduated from the ranks of NGX up to NDX. Its tighter range of constituent market caps ensures less concentration at the top end of the spectrum, as well as more meaningful allocations to fast-growing, newer additions to the index at the bottom end. And while it offers a different kind of sector exposure – most notably, less concentration in Technology – the Nasdaq Next Generation 100 reflects similar levels of concentration across the “new economy” sectors in aggregate, just like the Nasdaq-100. NGX consistently outperforms its competitor indexes in the midcap space on a range of innovation metrics, from reported R&D investment and patent filings to key thematic exposures.



In today's newly uncertain macroeconomic environment, periods of elevated market volatility are likely to remain more common than recent history, but innovation-driven growth is here to stay. Enter Nasdaq Generations 5™ (NDXGEN5™): a multi-asset, risk-controlled index featuring the Nasdaq-100® (NDX®) and Nasdaq Next Generation 100 Indexes, powered by Salt Financial's truVol® methodology. The index was launched on August 11, 2022, and provides a new way to access components of both indexes in a format that aims for stability in volatile markets. With the Nasdaq Generations 5 Index, you have exposure to the leaders of today and access to the disrupters of tomorrow with cutting-edge volatility control built right into the methodology, positioned to mitigate the impact of rising interest rates.

The Index is a 70/30 blend of the Nasdaq-100 and the Nasdaq Next Generation 100 Indexes, scaled to 5% volatility with the remainder in Fixed Income or Cash. The index is rebalanced daily using truVol, which is powered by historical intraday data. Fixed income allocations can be made only to either the 2-year or 10-year Treasury, and are toggled according to correlation. A simple trend indicator is used to switch to cash from Treasuries when a stop loss is triggered. Furthermore, it adjusts the equity weight up/down 20% based on truVol's Dynamic Risk Scalars, and uses trailing volatility on the index itself to help better maintain the 5% volatility target level. Designed to adapt to changing conditions in interest rates and the relationship between stocks and bonds, Nasdaq Generations 5 combines the best of Nasdaq's premier index offering with a robust approach to risk management.

About Salt Financial

Salt Financial LLC is a leading provider of index solutions and risk analytics, powered by the patent-pending truVol® Risk Control Engine (RCE). We leverage the rich information contained in intraday prices to better estimate volatility to develop index-based investment products for insurance carriers, investment banks, asset managers, and fund sponsors. Salt is committed to collaborating with industry leaders to empower the pursuit of financial outperformance for investors worldwide. For more information, please visit www.saltfinancial.com.

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