

# Dorsey Wright Technical Leaders Sector Index Family

Applying Momentum & Relative Strength Across Broad U.S. Sectors

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## **About Nasdaq Dorsey Wright**

Founded in Richmond, Virginia, in 1987, Nasdaq Dorsey Wright (NDW) is an industry leader in technical analysis and momentum-based investment research. The foundation of NDW's work is rooted in Point & Figure charting. Point & Figure charting is simply an organized, logical technique to track price movement over time. Point & Figure charts arm investors with an objective way to study price trends. Because it only uses a single, objective input—price—Point & Figure is an accessible and practical approach to navigating markets.

## **Trend Analysis**

The Point & Figure methodology can be used to chart the price of individual stocks, exchange-traded funds (ETFs), indexes, and even commodities and alternatives like gold and crypto to identify trends – in fact, it can be applied to anything with a daily price value. The charts are constructed of Xs and Os – Xs are charted when the price of a security rises. On the other hand, Os are charted when the price moves lower.

## **Measuring Relative Strength**

In addition to identifying the direction of a security's price movement via trend analysis, NDW incorporates the Point & Figure methodology and its related signals to measure the magnitude of a security's price movement. This measurement is known as Relative Strength or momentum. Like Point & Figure trend charting, Point & Figure Relative Strength requires just one simple input – price. The NDW Relative Strength methodology uses basic division to calculate the relative price movement ratio between a security (stock, ETF index) versus another security. This value, calculated daily, has no real meaning on its own; however, when the value is plotted over time using the Point & Figure methodology, Relative Strength signals begin to develop among the Xs and Os.

Because there are only four types of potential Relative Strength (RS) signals – RS Buy in Xs, RS Buy in Os, RS Sell in Xs, RS Sell in Os – this methodology provides an objective, clear-cut way to measure a security's momentum and Relative Strength. RS Buy in Xs is the most bullish signal for the security in question, while RS Sell in Os is the most bearish.



## **Relative Strength as an Investment Factor**

Relative Strength, also known as Momentum, has been proven to be one of the premier investment factors in use today. Numerous studies by academics and investment professionals have demonstrated that winning securities have more likely to continue to outperform in the near term, and that momentum can perform well within and across markets. Relative Strength is an adaptive, tactical investment strategy based on objective inputs like price that is designed to participate in themes of strength by providing a method for identifying market leadership.

## **Overview of Dorsey Wright Technical Leaders Methodology**

In 2013, NDW introduced its Dorsey Wright Technical Leaders Sector Index Family, a suite of high RS indexes covering nine broad US sectors. Each sector index is driven by the same underlying methodology and seeks to hold high RS names in each sector. First, a liquidity screen is applied to the top 2,000 names by market cap within the Nasdaq US Benchmark™ Index, a universe of about 3,000 US-listed stocks with large, mid, and small-cap names. Once applied, the universe is reduced to around 2,000 stocks. All 2,000 names are then categorized by broad sector using Dorsey Wright's proprietary classification system. Stocks that are designated as Basic Materials, Consumer Cyclical, Consumer Staples, Energy, Financials, Healthcare, Industrials, Technology, and Utilities are considered. From here, each sector universe is ranked from strongest to weakest using the RS Matrix tool, where stocks with the greatest number of RS buy signals fall near the top. The "strongest," i.e., top-ranked names, are selected for inclusion in the nine sector indexes. A minimum of 30 securities are selected for each sector index. All nine indexes are weighted based on Relative Strength, where the stronger, higher-ranked names in each index receive larger weightings. The Dorsey Wright Technical Leaders Sector suite is rebalanced and reconstituted quarterly to stay aligned with relative strength and any potential trend shifts.

- Nasdaq US Benchmark™ Index is the starting universe
- Nine broad sectors defined by Nasdaq Dorsey Wright
- Relative Strength process is applied quarterly to keep each sector index aligned with current trends
- Can hold small, mid, and large-cap U.S. stocks.
- Minimum of 30 holdings per sector index
- Index members are weighted by momentum so that the stocks with the strongest relative strength receive a higher weighting

## Dorsey Wright Technical Leaders Sector Index & Tracking ETFs

Index Symbol	Index Name	Tracking ETF Symbol	Tracking ETF Name
DWBM™	Dorsey Wright® Basic Materials Tech Leaders™	PYZ	Invesco Dorsey Wright Basic Materials Momentum ETF
DWCC™	Dorsey Wright® Consumer Cyclical Tech Leaders™	PEZ	Invesco Dorsey Wright Consumer Cyclical Momentum ETF
DWCS™	Dorsey Wright® Consumer Staples Tech Leaders™	PSL	Invesco Dorsey Wright Consumer Staples Momentum ETF
DWEN™	Dorsey Wright® Energy Tech Leaders™	PXI	Invesco Dorsey Wright Energy Momentum ETF
DWFN™	Dorsey Wright® Financials Tech Leaders™	PFI	Invesco Dorsey Wright Financial Momentum ETF
DWHC™	Dorsey Wright® Healthcare Tech Leaders™	PTH	Invesco Dorsey Wright Healthcare Momentum ETF
DWIDX™	Dorsey Wright® Industrials Tech Leaders™	PRN	Invesco Dorsey Wright Industrials Momentum ETF
DWTY™	Dorsey Wright® Technology Tech Leaders™	PTF	Invesco Dorsey Wright Technology Momentum ETF
DWUT™	Dorsey Wright® Utilities Tech Leaders™	PUI	Invesco Dorsey Wright Utilities Momentum ETF

### Historical Performance Comparison

The Dorsey Wright Technical Leaders Sector Index Family employs a methodology to identify high relative strength (RS) names within each sector. Relative strength is a momentum-based strategy that compares the performance of a security or sector against the broader market or other securities, selecting those that have shown superior performance over the near term and long term. It's important to recognize that this approach, while powerful, will inevitably encounter periods of underperformance. This is because not all sectors will outperform consistently due to the economy's cyclical nature and the varying impact of external factors on different sectors. Despite these challenges, an analysis of the performance over the past decade reveals a compelling outcome: the nine sector indexes that constitute the Dorsey Wright Technical Leaders Sector Index Family have, on the whole, consistently outperformed the S&P 500 on a total return basis. This suggests that the methodology's focus on capturing high RS names within each sector can, over time, lead to superior returns. Such outperformance underscores the potential of a well-executed relative strength strategy to enhance portfolio returns, even though individual sectors may experience temporary setbacks. This finding highlights the value of strategic sector rotation and the selection of high-momentum names within a diversified investment approach.

**Total Return Performance Quilt – 12/31/2013 – 12/29/2023**

2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Healthcare 21.7%	Staples 14.1%	Energy 31.7%	Healthcare 50.8%	Utilities 6.7%	Cyclicals 19.0%	Healthcare 68.0%	Energy 76.2%	Energy 46.8%	Industrials 37.9%
Utilities 20.8%	Healthcare 3.0%	Basic Materials 24.2%	Industrials 23.3%	Staples 2.1%	Financials 37.4%	Industrials 36.4%	Basic Materials 33.6%	Utilities -1.6%	S&P 500 26.3%
Staples 15.5%	Financials 1.8%	Utilities 19.8%	Staples 22.1%	Healthcare -0.3%	Industrials 35.0%	Staples 19.0%	Financials 29.5%	Staples -7.1%	Financials 13.1%
S&P 500 13.7%	S&P 500 1.4%	Cyclicals -2.7%	S&P 500 21.8%	S&P 500 -4.4%	Healthcare 34.3%	S&P 500 18.4%	S&P 500 28.7%	Basic Materials -14.9%	Staples 13.0%
Cyclicals 13.5%	Utilities -2.4%	Industrials 13.8%	Basic Materials 20.2%	Industrials -15.0%	S&P 500 31.5%	Cyclicals 38.7%	Industrials 26.3%	S&P 500 -18.1%	Basic Materials 10.2%
Financials 8.6%	Industrials -5.1%	S&P 500 12.0%	Cyclicals 19.8%	Financials -16.2%	Utilities 22.1%	Basic Materials 16.2%	Utilities 15.6%	Cyclicals -29.0%	Energy 5.8%
Basic Materials 4.2%	Basic Materials -5.5%	Financials 2.9%	Financials 15.6%	Basic Materials -22.8%	Basic Materials 20.2%	Financials 14.1%	Cyclicals 20.8%	Healthcare -20.3%	Cyclicals 30.1%
Industrials 0.5%	Cyclicals -0.1%	Staples -2.8%	Utilities 12.3%	Energy -26.9%	Staples 14.6%	Utilities -4.6%	Staples 6.8%	Financials -23.6%	Healthcare -3.8%
Energy -16.1%	Energy -23.5%	Healthcare -12.2%	Energy -7.9%	Cyclicals -5.9%	Energy 1.9%	Energy -35.6%	Healthcare -2.3%	Industrials -24.5%	Utilities -3.9%

**Performance Quilt Legend**

Index Symbol	Index Name	Sector Proxy
DWFNTR™	Dorsey Wright Financials Tech Leaders Total Return™	Financials
DWBMTR™	Dorsey Wright Basic Materials Tech Leaders Total Return™	Basic Materials
DWCCTR™	Dorsey Wright Consumer Cyclicals Tech Leaders Total Return™	Cyclicals
DWCSTR™	Dorsey Wright Consumer Staples Tech Leaders Total Return™	Staples
DWENTR™	Dorsey Wright Energy Tech Leaders Total Return™	Energy
DWHCTR™	Dorsey Wright Healthcare Tech Leaders Total Return™	Healthcare
DWIDXTR™	Dorsey Wright Industrials Tech Leaders Total Return™	Industrials
DWUTTR™	Dorsey Wright Utilities Tech Leaders Total Return™	Utilities
SPXT	S&P 500 Total Return Index	S&P 500

**Conclusion**

The Dorsey Wright Technical Leaders Sector Index Family selects top stocks in nine major U.S. sectors using momentum and relative strength, with a quarterly, rules-based process. This method demonstrates the advantages of an objective investment process. While momentum will not outperform in every market environment, it has historically yielded long-term gains, demonstrating its value as an underpinning of a well-rounded investment approach.

Sources: Nasdaq, Nasdaq Dorsey Wright, Bloomberg, FactSet.

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