Exponential ETFs

Reverse Cap Weighted
U.S. Large Cap Index

FAQs

What is the Reverse Cap Weighted U.S. Large Cap Index?

The Reverse Cap Weighted U.S. Large Cap Index is an alternative to the traditional cap-weighted index which has come to serve as a proxy for the market. Whereas market cap weighted indices like the S&P 500 give the largest allocation to the largest companies proportional to their size; Reverse - as the name implies - is a reverse cap-weighted portfolio, using the same 500 companies as the S&P 500, while giving the highest allocation to the smallest companies and the smallest allocation to the largest companies.

It is important to note that the "smallest companies" referred to above is a relative term, as the smallest 5% of names in the Index still maintain an average market cap in excess of $5 Billion.

How is the Reverse Cap Weighted U.S. Large Cap Index calculated?

1/MV Scheme: $W_i = \frac{1/Mcap_i}{\sum_i (1/Mcap_i)}$

The Index is a rules-based reverse capitalization weighted index comprised of the 500 leading U.S.-listed companies as measured by their free-float market capitalization contained within the S&P 500 universe. The resulting index provides exposure to the under-represented constituents of the S&P 500.

At the time of each Index rebalance, the Index components are weighted by the inverse of their free-float market capitalization, divided by the sum-total of the inverse free-float market capitalizations of all of the Index components - such that the smallest company in the Index will have the largest weight and the largest company in the Index will have the smallest weight.

Why is the Reverse Cap Weighted U.S. Large Cap Index beneficial?

Diversification

Through assigning the largest weights to the smallest market cap constituents of the S&P 500, Reverse provides investors a great way to diversify one's holdings away from the largest owned names populating the majority of cap weighted index funds. This yields an index that while ordinarily is the opposite of the S&P 500, has weights that differ from merely being the mirror image. Underscoring the effects of the weighting changes, the resulting index has less than 30% exposure overlap while holding the same 500 names as the S&P 500.

Reshape Your Market Cap

This weighting methodology maintains allocations to the same 500 benchmark companies, while drastically reducing the weighted-average market cap of the index from $196 Billion (S&P 500) to $18 Billion (Reverse Cap)*. This satisfies a unique area of the market-cap universe that is not currently being serviced by existing products.

* As of 01/31/2018

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Counter Momentum, Capture Value

The Reverse Cap Weighted U.S. Large Cap Index addresses issues that are inherently created by market cap weighting, which allocates more money to large companies strictly because they are large. Reverse provides access and broad exposure to companies that are underrepresented by traditional market cap weighted indices which are susceptible to continually providing more capital to companies and industries that are potentially overvalued, at the expense of investing in companies and industries that may be under-valued. The reverse cap approach, through its rebalancing schedule, implements a disciplined buy low/sell high strategy that may provide favorable risk-adjusted returns.

How can the Reverse Cap Weighted U.S. Large Cap Index be used?

The Reverse Cap Weighted U.S. Large Cap Index is a versatile index that can be used in a variety of ways across all market conditions.

A Tactical Product

The Reverse Cap Index provides investors an instrument to add portfolio exposure towards smaller cap companies within the large cap space, potentially benefiting from smaller cap tailwinds while reducing the impact of the higher liquidity, informational and volatility risks that "true small caps" may present.

A Diversification Tool

The top 10% of the S&P 500 comprise 49% of the total index weight. By virtue of the prevalence of cap weighted indices, those same names are over-represented across many ETF's. Therefore, in periods of intense market stress, a broad selloff may disproportionally hurt the largest constituents of cap weighted indices. In our view, adding the Reverse Cap Index as a piece of a portfolios core large cap holdings is a great way to diversify exposure while still investing in well know, well covered S&P 500 companies.

Precision Targeting

When Investing in the total S&P 500 universe, portfolios can include a standard market cap weighted product, or an equal weight product, with limited options in between. The Reverse Cap Index allows investors to precisely target their broad S&P exposure, through blending the traditional S&P 500 and the Reverse Cap Index to achieve any market cap weighting of the S&P 500 constituents to service the unique needs, targets and market outlook of the investor with ease and flexibility.