

Russell 1000 Outperforms the NASDAQ 100

Trade Idea

18 February 2013

Summary

- The Russell 1000 outperformed the NASDAQ 100 over the last year, and this may continue
- The Russell 1000 is up 6.88% year to date and is up 11.86% over the last 12 months, while the NASDAQ 100 is up 3.90% year to date and is only up 6.98% over the last 12 months
- Apple Inc. makes up over 13% of the 'tech heavy' NASDAQ 100 index and can be at least partially blamed for the underperformance
- Apple is down over 12% year to date and is down over 7% from a year ago (knocking -1.61% from the year to date index return and -0.95% from the 12-month return)
- Investors who believe that the RIY outperformance may continue could buy the Boost Russell 1000 3x Leverage Daily ETP (3USL) and the Boost NASDAQ 100 3x Short Daily ETP (QQQS). This may also offer investors who need to hold Apple Inc. (neutral weight in a portfolio, for example) a strategy that would allow for the overall returns to be enhanced if the share remains range bound or falls further within a broader bull market and the Russell 1000 does continue to outperform the NASDAQ 100

The NASDAQ 100 has underperformed the broader Russell 1000 index this year as the 'tech heavy' index seems to be weighted down at least in part by the 'Apple effect'. Apple Inc. makes up over 13% of the index and is down over 12% year to date (see chart on p.2). The share did rally over 800% from the \$78.20 per share low in 2009 to the \$705.07 per share high in 2012, so the approximate 30% decline from the peak thus far is well within the scope of a 'pause' in the trend. This 'pause' may continue which could act as an anchor on the NASDAQ 100 over the coming months and affect the relative performance vs. the Russell 1000.

The Russell 1000 index (chart below, left), by contrast, has more breadth in its constituents and is reflecting the improvement in the US economy and earnings expectations. US GDP is expected to rebound from the negative (-0.1%) Q4 GDP reading to post a 2% or higher annual rate. The recovery is expected to be bolstered by the Federal Reserves aggressive easing and stimulus policies which have boosted corporate profits and are expected to continue to do so. The Russell 1000 index is expected to trend higher and challenge the 858.63 peak from 2007, which may allow for further gains towards 900 and even 950, near the top of the rising channel in place from the 2009 low. A drop below 830 chart support would leave a bigger tumble to 800 at risk if seen, and serves as short bull risk. The NASDAQ 100 (chart below, right) though may remain below the 2012 peak of 2878.37 and there is some risk that a tumble back to 2677 (250-day moving average) and even 2600 (bottom of the rising bull channel) could be seen.

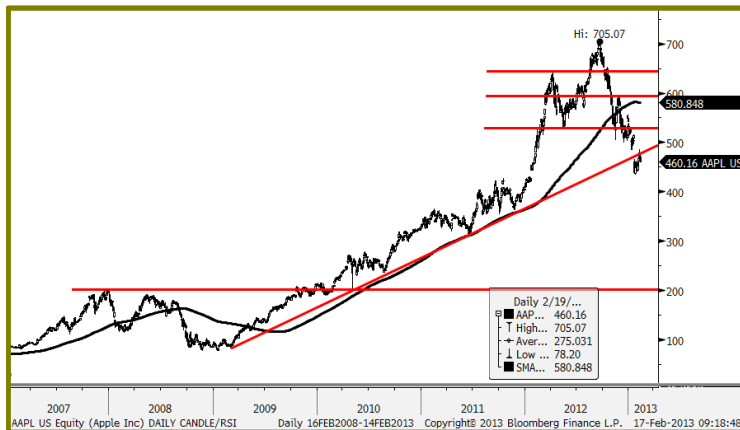
On a relative basis, if the Russell 1000 does trend to 900 as expected this would be a 6.60% gain from the close of 844.24 (Friday Feb. 15 2013). If the NASDAQ 100 pushes higher to 2878.37 this would be a 4.11% gain from the close of 2764.66 (Friday Feb. 15 2013). If the NASDAQ 100 drops to 2600 instead this would be a 5.96% drop, which would really start to make the outperformance strategy attractive.



*Data courtesy of Bloomberg and Reuters

* Source: Boost, Bloomberg. The prices used for the returns are primary market closing prices from Oct 18th 2012 to Jan 18th 2013, and are given in the base currency of each index. The returns may rely in part on back-tested prices prior to the inception of some ETPs. Past performance and back-tested performance are not indicators of future performance. Back-tested prices are those which proceed Dec 4th 2012 for ETPs referencing the FTSE 100, Dec 7th for the DAX, Dec 10th for EURO STOXX 50, Russell 100 or NASDAQ-100, and Dec 17th for the commodities.
 ** Calculated as annualised standard deviation over the past 3 months of daily returns (some of which are based on back-tested prices).

Apple Inc. daily chart with a 250-day moving average. The share has fallen over 30% after rallying from \$78.20 per share to \$705 per share from the 2009 low to the 2012 peak.



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