



# ARLINGTON

## INVESTMENT ADVISORS

### Three Passive Equity Index Strategies that have Beaten the S&P 500

**It's true that most active fund managers underperform the S&P 500.** But there are passive index strategies that have substantially outpaced the S&P over five- and ten-year periods. Don't let the failures of active managers prevent you from seeking "Alpha" with passive index strategies other than the S&P 500.

Over the past 10 years, the S&P has delivered an average annualized return of 14.78%. Just take a look at the returns of these three passively managed index ETFs (*performance data ending 12/31/2025*):

**QQQ** up 19.45% per annum over the past 10 years

**IWY** up 18.96% per annum over the past 10 years

**VUG** up 17.45% per annum over the past 10 years

There's no question that the vast majority of active managers have delivered sub-par performance relative to the S&P 500. This conundrum—that the bulk of presumably intelligent portfolio managers can't do better than a passive index—has led many investors to perceive the S&P 500 as the *only* strategy worth pursuing. Owning the S&P 500 for the bulk of your equity allocation is a great idea, but it doesn't need to be your only domestic equity position.

Let's take a look at three equity ETFs that passively track an index, own diversified positions, possess low management fees, and have delivered returns above the S&P 500 for both the last five- and ten-year intervals.

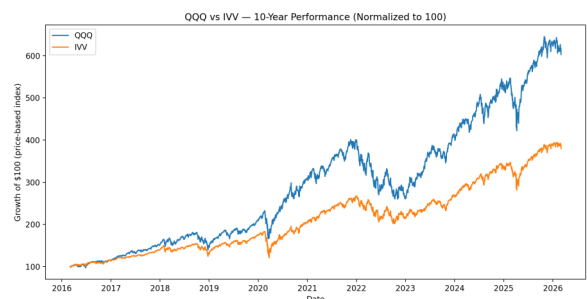
**QQQ** I'll have to admit one of my favorite funds— and a position I consider a no-brainer for most equity portfolios— is Invesco's QQQ (often referred to as 'the Qs'). It's often the second biggest equity position in my clients' accounts.

It follows a simple strategy: it owns the 100 largest (based on market capitalization) domestic and international, non-financial companies listed on the Nasdaq. The expense ratio is .18%.

By investing in only Nasdaq listed firms, the index becomes immediately more tech and life sciences focused, but not exclusively so. The big tech names that have rewarded investors over the last 10-15 years—NVIDIA, Apple, Microsoft, Tesla, Google (Alphabet), Amazon, and Facebook (Meta)— are all included. But consumer names such as Walmart, Pepsi, Costco, and Starbucks are also among the 25 top names.

Over the past five years, the Qs have delivered an annualized return of 15.06% and an impressive 19.45% over the past 10 years (as of 12/31/25).

Over the same intervals, the S&P 500 delivered 14.39% and 14.78%, respectively.





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### Three Passive Equity Index Strategies that have Beaten the S&P 500 (continued)

**IWY** An interesting strategy from BlackRock is their iShares Russell Top 200 Growth ETF (IWY). Like the QQQ discussed above, IWY is sleek, carrying only a little over 100 names. Earnings growth is key to stock market success, and IWY applies filters to the largest U.S. companies by market cap, and then includes companies that exhibit particular growth characteristics. IWY winnows the initial Russell 200 Large Cap names down to the 100 (and change) which sport the top relative growth attributes. The expense ratio is a low .20%.

IWY differs from the Qs in that it will include New York Stock Exchange (NYSE) companies as well as Nasdaq. As an example, at the time of this writing, Eli Lilly, an NYSE company, is the fund's 9th-largest holding. Other non-tech, non-Nasdaq companies that make the top 20 cut include UnitedHealth (UNH), Home Depot (HD), Visa (V), and Mastercard (MA).

And the results have been stunning. The 5-year annualized return sits at 16.49% vs. 14.39% for the S&P 500, and the 10-year annualized return is 18.96% vs. 14.78%.

**VUG** Everyone knows and loves Vanguard for the firm's offerings in index investing. But not everyone is taking advantage of one of Vanguard's index ETF offerings that focuses on Growth stocks. The world of equity investing is often divided between Growth and Value, with ardent adherents of both styles. While Warren Buffett made his mark as a Value investor, it has been Growth that has led the market since the 2008 Financial Crisis.

Vanguard's Growth ETF follows a passive management style and owns approximately 162 names—companies that meet the index's criteria for earnings growth. The expense ratio is .03%.

As Burton Malkiel proclaims in his investment classic, *A Random Walk Down Wall Street*: "Buy only companies that are expected to have above-average earnings growth for five or more years. An extraordinary long-run earnings growth rate is the single most important element contributing to the success of most stock investments."

Vanguard's Growth ETF puts Malkiel's assertion on earnings growth to work while utilizing a passive strategy, and the results have been terrific.

Over the past five years, the fund has delivered an annualized return of 14.62%; and a return of 17.45% over the past 10 years (as of 12/31/25). In the same intervals the S&P delivered returns of 14.39% and 14.78%

To be sure, the S&P 500 should be core portion of every portfolio. But long term "Alpha" is achievable via passive strategies. To learn more about adding some "Alpha" to your portfolio, don't hesitate to contact us for a consultation.

Michael Stern, Registered Investment Advisor



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