



BEAUMONT CAPITAL MANAGEMENT

What You Should Know About the GICS® and S&P 500® Changes

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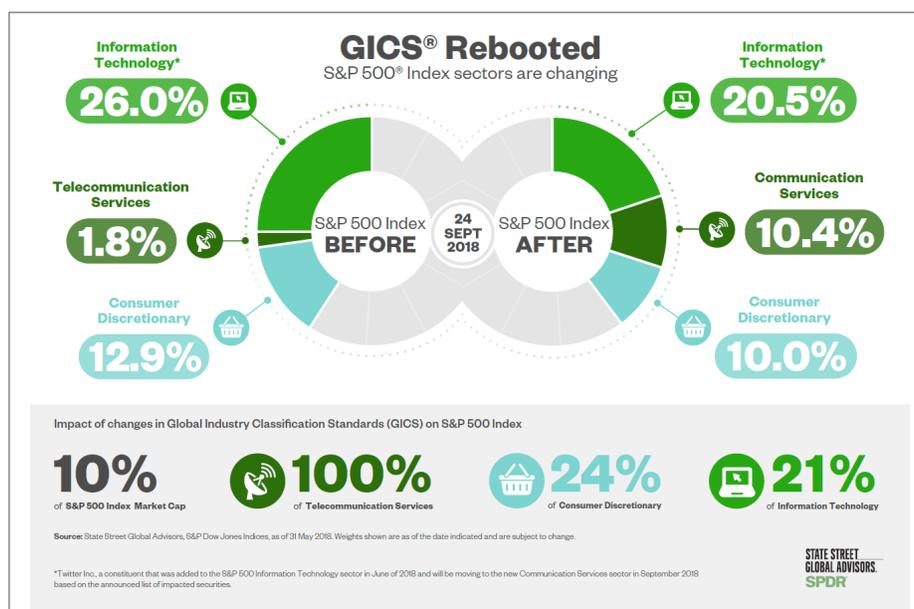
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In June, the GICS (Global Industry Classification Standards) index manufacturers, together with S&P Dow Jones Indexes, announced that they were going to re-align the sectors of the S&P 500. The major changes include:

- Renaming the Telecommunications Sector to Communication Services.
- Pulling out ~18 media and entertainment companies from Consumer Discretionary and adding them to Communications, including Netflix, CBS and Walt Disney.
- Pulling out ~5 entertainment and software services companies from Technology and adding them to Communication Services including Google and Facebook.
- Pulling ~one Technology company, EBAY, and adding it to Consumer Discretionary.

Graphically, the changes will look like:



To summarize, these changes will result in a 6% reduction in the size of the Technology Sector and a 3% reduction in the size of the Consumer Discretionary Sector. The new Communication Services Sector will be about 10% of the market Cap of the S&P 500. In terms of how the ETF sponsors are responding to this, we know that the SPDRs currently place Telecom companies in the Technology sector, so the reduction of this ETF's size may be closer to 7% or 8%. The official rebalance of the Sectors will be complete as of September 28. However, we learned a lot from the previous GICS change when they separated REITs from Financials:

- Not every ETF family will adopt this change.
- The tax ramifications may vary from one ETF family to another depending on what they do and how they do it.
- Sector, industry or theme based mutual funds that invest in these companies may have extremely large Capital gain distributions in 2018 if they are forced to sell. The gains in many of these companies are huge, including Facebook, Google/Alphabet and Netflix.
- It is best to be early rather than late in entering the trade.

SPDRs launched the first new Communication Services ETF, XLC, in June, and BCM promptly purchased this ETF in our Sector Rotation strategies. Despite being over-weight in certain companies, we did not want to wait for others to trade ahead of us. We plan to bring additional insights into the structural changes in further communications so please keep an eye out on [the BCM blog](#).

For more insights like these, visit BCM's blog at blog.investbcm.com

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