

CONFIDENTIAL  
PREMIUM RECOMMENDATIONS

Selection

ISHARES CYBER SECURITY AND TECH ETF (IHAK)

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VALUE LINE SELECT<sup>®</sup>

ETFs



Value Line<sup>®</sup>

MONTHLY FUND SELECTION SERVICE

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## STATE OF THE ECONOMY

**Inflation, though still elevated, remains on a downward trajectory.** This was evident in the December Personal Consumption Expenditures (PCE) Price Index, which is the assessment of inflation most closely monitored by the Federal Reserve. The PCE and core PCE Price Indexes, the latter of which excludes the food and energy components, increased 2.6% and 2.9% on a 12-month basis, respectively. The core PCE figure was down from 3.2% in November, and the lowest reading since March of 2021.

**The Federal Reserve has been able to make a notable dent in the pace of price growth without pushing the economy into recession.** In fact, the gross domestic product (GDP) advanced by a better-than-expected annualized rate of 3.3% during the fourth quarter of 2023. This, along with solid labor market conditions, including swelling of job openings, and continued growth in retail sales, has staved off much concern about impending U.S. recession, despite the Fed's restrictive monetary policies.

**Federal Reserve officials have some important monetary policy decisions looming.** (Note that the Federal Open Market Committee (FOMC) was scheduled to meet shortly after we went to press.) The key question will be when to pivot on the interest-rate front and begin reducing rates. Wall Street has been forecasting six quarter-point cuts to the federal funds rate in 2024, but we think fewer reductions are likely in light of the GDP figures and steady labor market. The economy has outperformed prognostications over the last 12 months, and even though the December personal income and spending report showed that consumers are now dipping into their savings accounts to pay for their expenditures, U.S. consumer confidence increased in January to the highest level since the end of 2021.

**Meantime, fourth-quarter earnings have been mixed so far.** With stock valuations elevated entering the season, Wall Street has cheered those companies that have exceeded expectations (e.g., IBM) and punished those that failed to meet forecasts (e.g., Tesla). This trend is likely to persist throughout this year.

**Conclusion:** In the current environment, we think the market will continue to reward those companies that deliver strong profit growth. Thus, a portfolio consisting of high-quality companies that have a history of delivering consistent earnings results is a good way to invest in this equity market.

## Recommended ETF Selection

### ISHARES CYBER SECURITY AND TECH ETF (IHAK)

TABLE 1: IHAK

<b>Inception Date:</b>	6/11/2019
<b>Primary Exchange:</b>	NYSE ARCA
<b>Issuer:</b>	BlackRock
<b>Index Provider:</b>	ICE Data Indices
<b>Geography:</b>	Global
<b>Investment Philosophy:</b>	Passively Managed
<b>Underlying Index:</b>	NYSE FactSet Global Cyber Security Index
<b>Index Composition:</b>	Market Cap Weighted
<b>Asset Class:</b>	Equity
<b>Capitalization:</b>	Broad
<b>Style:</b>	Blend
<b>Industry:</b>	Cyber Security

In this Issue of *Value Line Select: ETFs* we will be looking at a segment of the technology sector that has grown increasingly integral to the safety of the ubiquitous data and digital systems on which global societies depend. The iShares Cyber Security and Tech ETF seeks to provide investment results that correspond generally to the price and yield performance of an index composed of developed and emerging market companies involved in cyber security and

technology, including cyber security hardware, software, products, and services. The portfolio is highly concentrated, with the top-ten holdings representing more than 65% of the assets. However, these names are among the most prominent and recognized issues in the cyber security industry. Most of the companies in the ETF are based in the United States (73% of assets). The majority of the stocks in the fund are under *Value Line* coverage. With a 0.40% expense ratio, IHAK is among the more-moderately priced ETFs available. The fund has outpaced the S&P 500 over the past year. In addition, IHAK is liquid and trades with ample volume. While current conditions are complicated given the uneven economic trends of late, rapid growth in spending for cyber security should continue to create exciting new investment opportunities. At the same time, the promise of generative AI is spurring innovation industrywide.

#### Investment Insight

Cyber security is the process of protecting networks, devices, and data from unauthorized access or criminal use, and the practice of ensuring confidentiality, integrity, and availability of information. At this point, it should be clear to most investors that almost every aspect of our lives is connected through some form of digital network (i.e., computers and the Internet). Everything from medical records and financial resources to transportation and personal information is stored and shared through some form of digital medium. All of this data is vulnerable to so-called “bad actors” that can use sophisticated technology to access this information in order to commit cyber crimes.

A considerable increase in cyberattacks in recent years, owing to the proliferation of e-commerce

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platforms, smart devices, and the deployment of cloud technology, is the main factor propelling market growth. Moreover, increasing usage of devices equipped with the Internet of Things (IoT) and other integrated intelligent technologies is expected to increase the volume and magnitude of cyber threats. As such, end-user organizations are already seeking to integrate advanced cyber security solutions to mitigate the aforementioned risks, further supporting market expansion. Cyber security services emerging as a highly-integrated system being deployed across a multitude of applications creates a greater need for adaptive self-learning programs. In addition, the prevalence of mobile-networked devices, evolving electronic communications, expanding global use of social media, and an increasing reliance on “big data” require that cyber security systems be regularly updated to meet the demand of the changing cyber-threat scenario. Hence, global governments have increased their spending on cyber security solutions to protect devices and confidential data from cyber attacks. This further enhances the potential for growth in these markets. Recent global cyber-security market forecasts suggest a double-digit compound annual growth rate out to the end of the decade. The services segment has been the dominant category in the global cyber security market and we expect this to continue this year.

The ongoing digitalization wave has resulted in significant changes across a number of industries, from healthcare to manufacturing. Businesses are investing in the latest technologies, such as 5G, IoT, AI, and cloud, which is expected to generate enormous opportunities for the cyber security market. The integration of AI in cyber security solutions will enable more-advanced threat detection and response capabilities and companies are taking significant steps to integrate advanced technologies in their security solution offerings. For example, in December of 2023, IBM Corporation announced collaboration with Palo Alto Networks to find ways to enhance their capabilities and services.

## **Conclusion**

Individuals, government agencies, corporate and industrial entities, and other institutions are relying more heavily on various forms of data, and increasingly accessing that information via the cloud and/or the Internet. As those trends accelerate, the points of vulnerability will continue to expand rapidly. Moreover, widening usage of artificial intelligence and/or machine learning promises to speed up the growth in data, as well as the need for data security. Meanwhile, the increasing sophistication of security breaches ensures the need for better methods to secure digital systems. As such, many of the companies specializing in such security services are likely poised for rapid growth in the years ahead. An ETF like IHAK offers investors a balanced and less risky opportunity to benefit from the considerable upside potential of the major players in this arena.

**TABLE 2: IHAK KEY FACTS**

<b>1/31/2024</b>	
<b>Expense Ratio:</b>	0.47%
<b>12-month ETF return</b>	30.30%
<b>Shares Outstanding</b>	16,950,000
<b>Assets in top 10</b>	49.46%
<b>Price/Earnings Ratio</b>	37.77
<b>Price/Book Ratio</b>	5.64
<b>Equity Beta</b>	0.78
<b>30-Day SEC Yield</b>	-0.01%
<b>Number Of Holdings</b>	35
<b>Legal Structure</b>	Open-End Investment Company
<b>Standard Deviation</b>	19.93%
<b>Net Asset Value</b>	\$784,276,500

**TABLE 3: IHAK SECTOR EXPOSURE BREAKDOWN**

<b>1/31/2024</b>	<b>% of Market Value</b>
<b>Information Technology</b>	86.8%
<b>Industrials</b>	12.8%
<b>Cash</b>	0.4%

## INDUSTRY FOCUS: CYBER SECURITY

The Cyber Security Industry saw a tremendous boost in demand when the coronavirus pandemic forced millions to work and study remotely. With the huge increase in online interactions, the number of vulnerable end-points (Internet-connected devices) also increased exponentially, prompting a surge in spending on cloud security. In addition to basic offerings, such as firewalls, this also led to a substantial boost in demand for identity protection and Security-as-a-Service (SaaS) offerings. In 2024, the cyber security landscape is on the cusp of widespread transformation characterized by mounting complexity, rapidly-evolving threats, and a further strengthening of demand for sophisticated and integrated security solutions. Positioned at the crossroads of unprecedented technological advancements and escalating cyber security challenges, a new era of regulatory scrutiny for the Cyber Security Industry is set to play out this year. The Securities and Exchange Commission enacted rules mandating that public companies have to disclose material security incidents. All told, these factors point to considerable spending on advancing

this technology to prepare for a continuously evolving threat. Given the inherent volatility associated with the tech issues in this Industry, an ETF like IHAK presents a savvy risk-conscious tool for maximizing the upside prospects here.

## TOP 10 HOLDINGS

TABLE 4: IAHK HOLDINGS: 35 COMPONENTS (ONLY TOP 10 SHOWN)

Company Name	Symbol	Stock Price	Weight	*Price to Sales	Region/Country	Safety Rank
SentinelOne, Inc.	S	\$27.49	4.94%	13.4	N. America / US	4
Juniper Networks, Inc.	JNPR	\$36.89	4.73%	2.1	N. America / US	2
CrowdStrike Hldgs. A	CRWD	\$299.37	4.55%	22.3	N. America / US	4
Fortinet, Inc.	FTNT	\$66.45	4.49%	9.6	N. America / US	3
Zscaler, Inc.	ZS	\$238.06	4.35%	21.7	N. America / US	4
Cyber Ark Software	CYBR	\$236.07	4.24%	NMF	Israel	NMF
Tenable Holdings, Inc.	TENB	\$47.57	4.22%	7.0	N. America / US	3
Palo Alto Networks	PANW	\$339.97	4.18%	15.2	N. America / US	3
OKTA, Inc. Class A	OKTA	\$84.90	4.10%	6.2	N. America / US	3
Booz Allen Hamilton	BAH	\$142.17	4.02%	1.8	N. America / US	2

(\*) Ratios subject to change based on availability of respective data.

NMF - Data is not meaningful

## PORTFOLIO UPDATE

In this cycle, we will be closing out our position in an ETF we have held for over a year, Utilities Sector SPDR Fund (XLU). We picked up this issue as a defensive play to help offset the downward pressure on growth from volatile market conditions over the past few years. However, resilient economic expansion and improvement in the broader outlook, in addition to the sluggish performance of XLU over the holding period, has prompted us to cut our losses. Apart from the aforementioned sale of XLU and the addition of iShares Cyber Security & Tech ETF (IHAK), there were no further changes to the portfolio. The pace of gross domestic product (GDP) growth will likely slow in the first half of 2024, as the full effects of the Federal Reserve's restrictive monetary policy course weigh on the economy. That said, it is increasingly apparent that a recession is unlikely, especially if inflationary data continues to trend closer to the Fed's target rate of 2%. This scenario would also enhance the likelihood that policymakers would begin cutting interest rates as early as the second half of 2024.

## ETF HOLDINGS

Ticker	Value Line Select ETFs Holdings	Purchase Date	Purchase Price	Current Price as of 1/31/24	Return as of 1/31/24
XLP	Consumer Staples Select Sector SPDR Fund	7/29/2022	\$74.49	\$72.92	-2.11%
PPH	VanEck Pharmaceutical ETF	12/29/2022	\$78.10	\$85.30	9.22%
IAK	iShares U.S. Insurance ETF	1/30/2023	\$93.92	\$106.95	13.87%
PPA	Invesco Aerospace & Defense ETF	2/28/2023	\$80.34	\$91.03	13.31%
XME	SPDR S&P Metals & Mining ETF	3/21/2023	\$50.82	\$57.18	12.51%
QCLN	First Trust NASDAQ Cln. Edge Green Energy Idx Fd	4/21/2023	\$47.74	\$34.71	-27.29%
IYH	iShares U.S. Healthcare ETF	5/24/2023	\$272.54	\$293.94	7.85%
XSD	SPDR S&P Semiconductor ETF	6/26/2023	\$208.78	\$210.62	0.88%
XLC	Communication Services Select Sector SPDR Fund	7/26/2023	\$66.92	\$75.88	13.39%
IYT	iShares U.S. Transportation ETF	8/25/2023	\$244.64	\$258.22	5.55%
XSW	SPDR S&P Software & Services ETF	9/28/2023	\$126.15	\$147.84	17.19%
XLF	The Financial Select Sector SPDR Fund ETF	10/27/2023	\$31.45	\$38.76	23.24%
TECB	iShares U.S. Tech Breakthrough Multisector ETF	11/30/2023	\$40.56	\$44.86	10.60%
XLY	Consumer Discretionary Select Sector Fund ETF	12/27/2023	\$180.45	170.92	-5.28%
IHAK	iShares Cyber Security & Tech ETF	1/31/2024	\$46.71		

## Footnotes

- (1) **Price-to-Earnings Ratio:** Refers to the ratio for valuing a company that measures its current share price relative to its earnings per share (EPS).
- (2) **Price-to-Book Ratio:** Refers to the measure that compares a firm's market capitalization to its book value. It is calculated by dividing the company's stock price per share by its book value per share (BVPS).
- (3) **Relative P/E:** Compares the current absolute P/E to the comparable stock market index.
- (4) **Net Asset Value:** Represents the total value of all securities held by the ETF, including cash.
- (5) **Market Capitalization:** Refers to the total dollar market value of a company's outstanding shares.
- (6) **Return:** Refers to price change from purchase date to specified date of calculation (excluding dividends).



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