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At WisdomTree, we manage strategies across an array of different megatrends, and one that always stands out to us—particularly by way of stories—is cybersecurity. Think of it this way: If there is a company or a person out there looking to save money, how much bang for the buck might there be in CUTTING cybersecurity spending? Many of us would look at that and think that the risk is not worth the potential reward.

Attackers are always seeking an advantage, so the demand to defend, in our view, should remain healthy across all economic environments. Unfortunately, they may not always lead to positive investment returns across specific stocks over different periods. Sometimes the picture ends up like 2022, when a macroeconomic force—in this case central banks shifting interest rates higher quite quickly—causes an apparent divergence between the investment returns of the public market stocks and the apparent need for cybersecurity services. Similarly, sometimes the picture ends up looking like 2023, when the market starts looking forward to a time when interest rates may ultimately fall, and the market return of publicly listed cybersecurity stocks can be quite high.

The justification of the media industry has highlighted a real challenge and cybersecurity defense is a real challenge for the public market. Investment in cybersecurity can be a real challenge.

In our opinion, thinking about the importance of cybersecurity and organizing the space in a way that helps to make it appear more digestible could be an approach that allows investors to connect more with the long-term cybersecurity megatrend and weather any shorter-term equity volatility.

We are fortunate to be able to work with Team8, a venture firm with an exceptional level of experience in analyzing trends within cybersecurity. In this article, we are able to benefit from the perspective of Nadav Zafrir and Admiral Mike Rogers. Nadav Zafrir served as Commander of Unit 8200, Israel's elite military technology unit, prior to co-founding Team8. Admiral Rogers culminated his distinguished U.S. Navy career with a four-year tour as Commander, U.S. Cyber Command, and Director, National Security Agency.

Together, their experience and accomplishments bring the highest level of perspective from two of the most capable countries within the cyber space.

ORGANIZING THE CYBERSECURITY LANDSCAPE FROM GREATER STRUCTURE WE MAY ACQUIRE GREATER UNDERSTANDING

While a simplistic take on cybersecurity may mean “protecting systems from hackers,” it’s important to recognize that there is a lot more than that going on across the different companies. Team8 and WisdomTree collaborated to create a series of eight investment themes within the cybersecurity space. This is helpful in placing the different types of activities done at the company level into better context to see how different trends are evolving within the broader megatrend.

Figure 1 is a representation of this structure.



Source: Team 8 and WisdomTree, 2023.

From Figure 1, we can then look at how Nadav Zafrir and Admiral Rogers would speak about each of these different topics, given their backgrounds and expertise in the topic.

THEME OF AI SMARTER SECURITY

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Thi e d, a d Ala d a e' ec i, i, g i g acce e a ei he c i g, ea' A, e a i ga e he i cea ed c ei, e e e age e, ech gie i e AI he a, ahead f he c e

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G i g f' a d e CEO a, a c i a g, h i c, be' i, ai a be a d ha he ca, ee gi i g CISO, b dge i cea e, ea' a e', ea' We, j ha e

THEME OF PERIMETERLESS WORLD

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e a' ed The COVID, a de' ica d' , de' ead' e e , ha eacce' a ed hi' e d' a i gi' ceá' ha

THEME OF LAYER

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e a e d a T a d d e h i c h a e g e e f c L a e e h e h a a e a d b i d h a
e e e e a e b e e e c i, d e c i i

I i g h e a b i i, f e c i, a d a i g h e i i i e f e c h i c a e i a i a f i e
B e a b i g e e i e a c j h e c g e c e, a d e i c i e e c a e d c e h e i e i h d f h a e e
e a d i g e c i, b e a c h e

A h e a e i e e d c a i g e e b e a c i c e a d e i i g h e j h h e a d e d g e a e
i f e d d e c i i i a i, e g h e g a i a i, e c i, e B i d i g e e e j h
h e i g h a i i g a d e c e e c a h e i a a e i h e f i g h a g a i c b e h e a

CONCLUSION TRACKING THE THEMES ALLOWS US TO TRACK THE ONGOING EVOLUTION OF CYBERSECURITY

One of the most difficult aspects of megatrend investing regards the measurement of progress. Megatrends can be quiet for long periods, and then suddenly, then can splash across almost every headline—just look at AI and ChatGPT over the past couple of years. The different themes allow us to categorize company activities and therefore track the different progress being made across them. They also help in finding new, public company opportunities that may best represent the space.

For those investors interesting in a specific investment strategy that includes these themes as part of the constituent selection process, the [WisdomTree Cybersecurity Fund \(Ticker: WCBR\)](#) may be of particular interest.

