# THE WORST PERFORMING ETFS TODAY COULD BE STRONG OPPORTUNITIES FOR TOMORROW

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Time and time again we hear about one of the most detrimental behaviors of investors: performance chasing. Markets and asset classes that have recently performed the strongest get the most attention, even though few would dispute that no market or asset class can remain a top performer through all market conditions. We can all remember the U.S. equity market in March of 2009—we know today that it represented one of the best buying opportunities in recent history, but if we're honest, the feeling at that point was anything but certain. Therefore, knowing some of the weaker-performing exchange-traded funds (ETFs) out of the 99 that existed at WisdomTree as of June 30, 2016, could provide investors with a glimpse of some of the most contrarian stories in global asset classes for those bargain hunters chasing those assets that have faced the most pressure recently. **Where Might a Similar "March of 2009" Opportunity Exist Today?** We believe that Japan has, in essence, become the most contrarian market in the world. There are a number of reasons why we believe that contrarians should be re-engaging with Japanese equities at this point. • **The WisdomTree Japan Hedged Financials Fund (DXJF) Down More than 36% in 1H2016:** Japanese financials, in particular, have been among the worst-performing parts of any equity market anywhere in the world. Investors have been concerned about the impact of negative interest rates on bank profitability. One thing that we find interesting here is that in terms of the components of shareholder yield, we are seeing a high degree of buybacks among Japanese financials—a positive signal, given the amount of cash many of these firms have on hand.[1] • **Yen Strength Has Made It Tougher for Japanese Exporters:** Given the general risk aversion seen in 2016, most recently in response to Brexit, the yen has been among the best-performing currencies against the U.S. dollar.[2] The WisdomTree Japan Hedged Equity Fund (DXJ) seeks to track the returns of an Index that tilts toward a focus on exporters and was down 23.6% in 1H2016. While these securities may tend to have a competitive tailwind in a depreciating yen environment, their situation becomes more challenging if the yen appreciates to a significant degree in a relatively short time. The WisdomTree Japan Hedged Capital Goods Fund (DXJC) tends to have exposures that also heavily emphasize the export-oriented areas of the Japanese market, and it was down more than 25% in 1H2016. These areas of Japan's market are turning into some of the least expensive on multiple valuation metrics of any equity market in the world. - **Searching for the Catalyst:** To find that "March of 2009"-type opportunity, there are really two ingredients in our focus. The first is a perception of a unique risk that pushes down current valuations and raises potential future returns to compensate those willing to think about an allocation. It is clear to us that both DXJ and DXJC meet this condition. The second ingredient regards that catalyst for change that could stem the tide of negative momentum and sentiment. We believe that government—be it either from the fiscal or monetary side—could be important. If this happens and it halts the appreciation of the yen that we've seen so far in 2016, we think that Japan—and DXJ and DXJC in particular—could rebound. - Looking beyond Japanese exporters, the WisdomTree Japan Hedged SmallCap Equity Fund (DXJS), down 17.1% in 1H2016; the WisdomTree Japan Hedged Quality Dividend Growth Fund (JHDG), down 16.4% in 1H2016; and the WisdomTree Japan Hedged Tech, Media and Telecom Fund (DXJT) , down 15.3% in 1H2016, performed better than the financials, capital goods or exporters from Japan for a few key reasons: 1) DXJS is very locally focused, deriving more than two-thirds of its weighted average revenue from within Japan,[3] thereby making it more insulated from the yen's appreciation; 2) JHDG has quite a low weight to financials; and 3) JHDG has quite a lot of exposure to telecommunication services, while DXJT focuses almost exclusively on this sector. For investors looking for a complement or diversifier away from DXJ in the currency-hedged Japan space, JHDG for quality Japan and DXJS for small-cap Japan both had notably better performance during the downdraft of 2016. • **China Has Been Tough:** What's clear is that there are two distinct Chinas: "New China" and "Old China." Old China is characterized by the very large, typically state-owned enterprises, most notably the big banks and energy firms. New China is characterized by technology and consumer-oriented companies, which we would expect would be areas that could be quite exciting, as China transitions from an investment- and infrastructure-led economy to a consumption-led growth model. The WisdomTree China ex-State-Owned Enterprises Fund (CXSE), down 9.1% in 1H2016, tracks an Index that tilts away from the largest state-owned companies that characterize a focus on Old China. As a longer-term focus, this to us is going to be a main driver of growth in the global economy, even if during the first half of 2016 China as a whole has been a tougher market. • **European Financials Getting Tested in 1H2016:** The WisdomTree Europe Local Recovery Fund (EZR), down 13.4% in 1H2016, tracks the performance of an Index that requires constituents to generate more than 50% of their revenues from inside Europe. This has led to a financials exposure greater than 30%. In the current interest rate environment, it is no secret that this type of exposure could face a headwind in the near term, but if Europe does embark on a path to stronger recovery, financials could be an important part of that. Investors are always looking at their portfolios for opportunities to rebalance and try to "buy low." These WisdomTree ETFs perhaps represent a good list to choose from in looking at where those opportunities are today. View the standardized performance of WisdomTree ETFs here. [1]Sources: WisdomTree, FactSet, as of 6/30/16. Universe of Japanese financials is the WisdomTree Japan Hedged Financials Index. [2]Source: Bloomberg, with data from 12/31/15 to 6/30/16. [3]Sources: WisdomTree, FactSet, as of 5/31/16.

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## DEFINITIONS

**Contrarian** : Practice of seeing what the majority of market participants are focused on and attempting to look in the complete opposite direction.

**Shareholder Yield** : A data point that references the combination of dividend yield and buyback yield.

**Buyback** : When a company uses its own cash to purchase its own outstanding shares; may positively impact the share price.

**Brexit** : an abbreviation of "British exit" that mirrors the term Grexit. It refers to the possibility that Britain will withdraw from the European Unio.

**Valuation** : Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.

**State-owned enterprise** : Companies in which governments have a significant ownership stake and the potential to influence the firms' actions over time.