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# MID-CAP VALUE: THE MOST-HIPSTER ASSET CLASS

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With a market segment that is often overlooked, and in an investment style that the markets seem to hate, [mid-cap value](#) may be the most-hipster equity-style box out there.

As a Brooklyn resident, I can attest firsthand that there are many hipster favorites to pass on (just about every clothing trend comes to mind). But mid-cap value is like the always-underrated PBR beer—consistently better than you expected it to be.

Mid-cap value has been one of the most consistently performing asset classes over the last 25 years. Despite the relentless underperformance of the value factor since the mid-2000s, mid-cap value has held up much better than its [large](#) and [small-cap](#) counterparts. In fact, mid-cap value has beaten the [S&P 500](#) Index on 63% of all rolling 3-year periods, 76% of rolling 5-year periods, 97% of rolling 10-year periods, and on every single rolling 15- and 20-year period.<sup>1</sup>

The asset class has seen its performance take off like it has been guzzling sustainably farmed, fair-trade coffee.

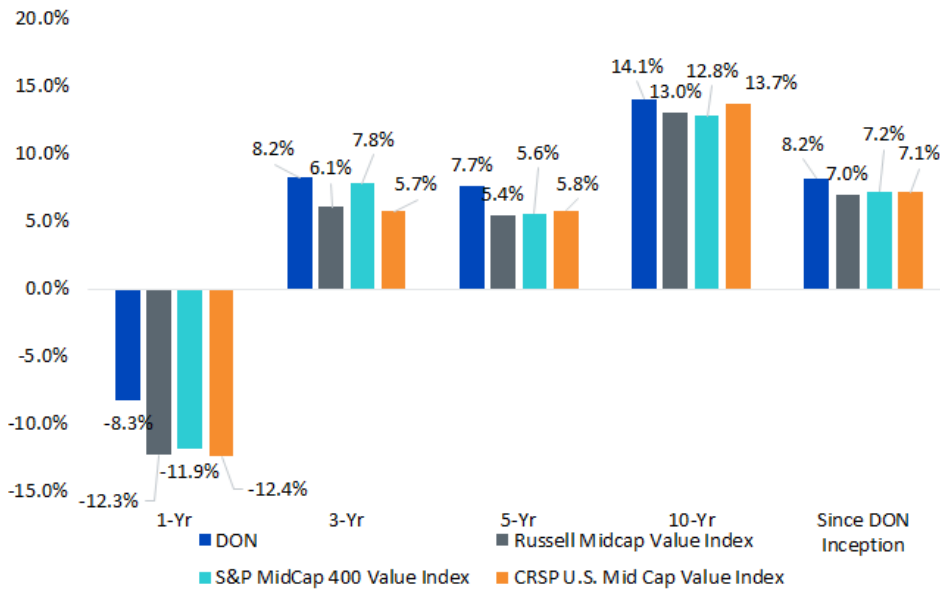
## **[Active](#), [Passive](#) or Somewhere in Between**

We often hear that mid-caps are an inefficient asset class in which investors will opt to use active managers in hope of outperformance. This philosophy has come under fire given the continued underperformance of so many active managers. According to the latest [SPIVA® report](#), that measures the performance of active funds against their benchmarks, at least 75% of all mid-cap value funds underperformed the [S&P MidCap 400 Value Index](#) benchmark over each of the latest 1-, 3-, 5-, 10-, and 15-year periods!<sup>2</sup>

Investors may be starting to realize the struggles of active managers in mid-cap value. Currently, there is \$27 billion in exchange-traded funds (ETFs) that track either the [Russell Midcap Value Index](#), the S&P MidCap 400 Value Index or the [C RSP U.S. Mid Cap Value Index](#).<sup>3</sup> While we advocate for investors utilizing the ETF structure, we think an approach that can offer better performance than pure [beta](#) is optimal. The [WisdomTree U.S. MidCap Dividend Fund \(DON\)](#) epitomizes the idea of [Modern Alpha](#)<sup>TM</sup>—the potential for outperformance in what we believe to be the superior ETF vehicle.

The numbers prove this. DON has outperformed each of the three beta indexes on all standard time frames since its inception in 2006.

## **WisdomTree U.S. Dividend MidCap Fund (DON) Performance vs. Mid-Cap Value Indexes**



Sources: WisdomTree, Bloomberg, CRSP, for the period 6/30/06–12/31/2018, and starts with first full calendar month following DON inception.

Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and principal value of an investment will fluctuate so that an investor’s shares, when redeemed, may be worth more or less than their original cost. Performance data for the most recent month-end is available at [wisdomtree.com](http://wisdomtree.com).

WisdomTree shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Total returns are calculated using the daily 4:00 p.m. EST net asset value (NAV). Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where Fund shares are listed. Market price returns do not represent the returns you would receive if you traded shares at other times.

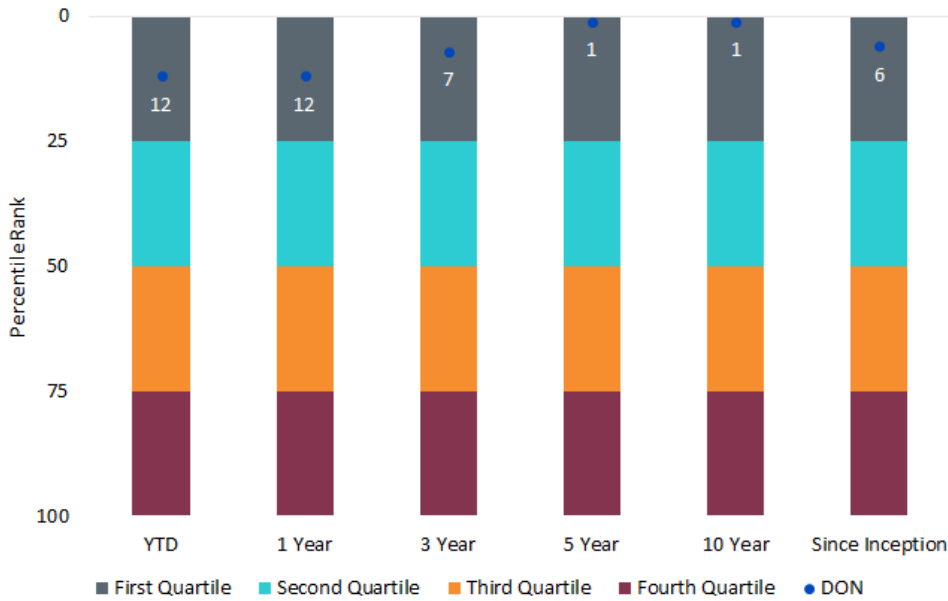
### DON: A Model of Consistency

Since our approach fits between active and passive, we think it’s fair to compare ourselves to both peer groups—and compared to both active mutual funds and passive ETFs, DON stacks up well.

Following another strong year relative to its benchmark, DON is in the top quartile of its Morningstar Mid-Cap Value peer group on all time frames. This includes the latest 5- and 10-year periods in which DON is in the first percentile of all mid-cap value funds.

Over the last 12+ years, DON has been a remarkably consistent outperformer in an unexpectedly consistent asset class. In true hipster fashion, DON has been beating its peers since before it was cool.

### DON vs Active and Passive Mid-Cap Value Managers



Source: WisdomTree, Morningstar Direct, as of 12/31/2018. Number of managers in Mid Cap Value category: 432 (YTD), 419 (1 year), 372 (3 year), 314 (5 year), 227 (10 year), 185 (since inception). Morningstar, Inc., 2017. All rights reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance, rankings and ratings are no guarantee of future results. The % of Peer Group Beaten is the funds' total-return percentile rank compared to all funds within the same Morningstar Category and is subject to change each month. Regarding ranking of funds, 1 = Best.

<sup>1</sup>Sources: WisdomTree, Zephyr StyleADVISOR, for the period 6/30/1995–12/31/2018.

<sup>2</sup>Source: S&P Dow Jones Indices, SPIVA® U.S. Scorecard, Mid-Year 2018.

<sup>3</sup>Source: Bloomberg, as of 1/24/19.

**Important Risks Related to this Article**

There are risks associated with investing, including possible loss of principal. Funds focusing their investments on certain sectors and/or smaller companies increase their vulnerability to any single economic or regulatory development. This may result in greater share price volatility. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

For the top 10 holdings of DON please visit the Fund's fund detail page at <https://www.wisdomtree.com/investments/etfs/equity/don>

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

For more investing insights, check out our [Economic & Market Outlook](#)

View the online version of this article [here](#).

## **IMPORTANT INFORMATION**

**U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.**

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

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You cannot invest directly in an index.

## DEFINITIONS

**Mid-Cap** : Characterized by exposure to the next 20% of market capitalization (after the top 70% have been removed) within the Value, Blend or Growth style zones with the majority of the fund's weight.

**Value** : Characterized by lower price levels relative to fundamentals, such as earnings or dividends. Prices are lower because investors are less certain of the performance of these fundamentals in the future. This term is also related to the Value Factor, which associates these stock characteristics with excess returns vs the market over time.

**Large-Capitalization (Large-Cap)** : A term used by the investment community to refer to companies with a market capitalization value of more than \$10 billion. Large cap is an abbreviation of the term "large market capitalization". Market capitalization is calculated by multiplying the number of a company's shares outstanding by its stock price per share.

**Small caps** : new or relatively young companies that typically have a market capitalization between \$200 million to \$2 billion.

**S&P 500 Index** : Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.

**Active** : Funds that attempt to outperform the market by selecting securities a portfolio manager believe to be the best.

**Passive** : Indexes that take a rules-based approach with regular rebalancing schedules that are not changed due to market conditions.

**S&P Indices Versus Active (SPIVA®)** : Measures the performance of actively managed funds against their relevant S&P index benchmarks.

**S&P MidCap 400 Value Index** : Provides investors with a measure of the performance of the value segment of the S&P MidCap 400 Index.

**Russell MidCap Value Index** : measures the performance of the mid-cap value segment of the U.S. equity universe. It includes those Russell Midcap Index companies with lower price-to-book ratios and lower forecasted growth values.

**CRSP U.S. Mid Cap Value Index** : Market capitalization-weighted measure of the performance of mid cap value equities within the United State.

**Beta** : A measure of the volatility of a security or a portfolio in comparison to a benchmark. In general, a beta less than 1 indicates that the investment is less volatile than the benchmark, while a beta more than 1 indicates that the investment is more volatile than the benchmark.

**Modern Alpha** : Modern Alpha® combines the outperformance potential of active with the benefits of passive—to offer investor strategies that are built for performance.