# GET MORE DEFENSIVE WITH YOUR EQUITY EXPOSURE

**Luciano Siracusano — Chief Investment Strategist**
**02/22/2016**

It is worth remembering that the S&P 500 Index experienced declines *within* five of the last seven years, yet it has still managed to *end* each of those calendar years with positive returns, after adding back dividends. With the rough start for stocks in 2016, both inside and outside the U.S., it's easy to lose sight of the fact that markets often swoop downward for weeks or months before staging rallies and reclaiming lost ground in the quarters that follow. Whether that occurs in 2016 may well depend on if (and how fast) corporate earnings recover from their current lull—and whether oil prices can stabilize and rise from current levels. On a year-to-date (YTD) basis, the U.S. and developed markets sold off through February 15 by more than 8% and 13%, respectively.[1] Undoubtedly, some investors may be viewing 2016 as the year when broad equity markets end the year lower than they began. That means any near-term rallies that do develop are likely to be met by sellers trying to lighten their equity exposure or rotate into more defensive positions. We screened all the WisdomTree equity Funds in search of what has been our most defensive equity Fund thus far in 2016. The answer: the WisdomTree High Dividend Fund (DHS). The Index it tracks, the WisdomTree High Dividend Index, declined just 3.2% through February 15 at a time when the S&P 500 Index had declined by 8.5%. The WisdomTree High Dividend Index is exhibiting three characteristics that investors typically search for in choppy markets: defensive sector exposure, lower beta and a healthy dividend yield. **WisdomTree High Dividend Index vs. Russell 1000 Value and S&P 500 Indexes**

| Characteristic Highlights | Returns | Valuations | | Sector Exposure | | 5- Year Risk/Returns (1/31/2011-1/31/2016) | | | |
|---|---|---|---|---|---|---|---|---|---|
| Fund/Indexes (as of 2/15/2016) | Year-to-Date | Forward Price-to-Earnings | Trailing 12M Dividend Yield | Cyclicals | Defensives | 5-Year Returns | Standard Deviation (%) | Beta vs. S&P 500 | Sharpe Ratio |
| WisdomTree High Dividend Index | -3.18% | 16.7x | 4.53% | 52.2% | 47.8% | 12.80% | 9.53% | 0.67 | 1.34 |
| Russell 1000 Value Index | -8.58% | 14.7x | 2.92% | 70.2% | 29.8% | 9.61% | 12.41% | 1.02 | 0.77 |
| S&P 500 Index | -8.51% | 15.5x | 2.37% | 67.7% | 32.3% | 10.91% | 11.98% | 1.00 | 0.91 |

| Fund/Index | Fund Information | | | Cumulative Returns as of 1/31/2016 | | | | | | | | Average Annual Returns as of 12/31/2015 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | NAV Returns (%) | | | | Market Price Returns (%) | | | | NAV Returns (%) | | | | Market Price Returns (%) | | | |
| | Ticker | Exp. Ratio | Inception Date | 1-Mo. | 3-Mo. | YTD | Since Fund Inception | 1-Mo. | 3-Mo. | YTD | Since Fund Inception | 1-Yr. | 3-Yr. | 5-Yr. | Since Fund Inception | 1-Yr. | 3-Yr. | 5-Yr. | Since Fund Inception |
| **WisdomTree High Dividend Fund** | **DHS** | **0.38%** | **6/16/2006** | **-1.12%** | **-1.95%** | **-1.12%** | **67.63%** | **-1.35%** | **-2.30%** | **-1.35%** | **67.29%** | **-0.61%** | **12.50%** | **12.55%** | **5.69%** | **-0.68%** | **12.50%** | **12.53%** | **5.69%** |
| **WisdomTree High Dividend Index** | | | | **-1.09%** | **-1.85%** | **-1.09%** | **72.79%** | **-1.09%** | **-1.85%** | **-1.09%** | **72.79%** | -0.23% | 12.88% | 12.96% | 6.02% | -0.23% | 12.88% | 12.96% | 6.02% |
| Russell 1000 Value Index | | | | -5.17% | -6.85% | -5.17% | 65.37% | -5.17% | -6.85% | -5.17% | 65.37% | -3.83% | 13.08% | 11.27% | 6.00% | -3.83% | 13.08% | 11.27% | 6.00% |
| S&P 500 Index | | | | -4.96% | -6.18% | -4.96% | 90.20% | -4.96% | -6.18% | -4.96% | 90.20% | 1.38% | 15.13% | 12.57% | 7.54% | 1.38% | 15.13% | 12.57% | 7.54% |

Sources: Bloomberg, WisdomTree, as of 2/15/16. Cyclical: Consumer Discretionary, Energy, Financials, Industrials, Information Technology and Materials. Defensives: Utilities, Telecommunication Services, Health Care and Consumer Staples.

**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 www.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.

You cannot invest directly in an index. Index performance does not represent actual fund or portfolio performance. A fund or portfolio may differ significantly from the securities included in the index. Index performance assumes reinvestment of dividends but does not reflect any management fees, transaction costs or other expenses that would be incurred by a portfolio or fund, or brokerage commissions on transactions in fund shares. Such fees, expenses and commissions could reduce returns. WisdomTree, its affiliates and their independent providers are not liable for any informational errors, incompleteness or delays or for any actions taken in reliance on information contained herein.

*For definitions of terms and indexes in the chart, visit our glossary.* **Defensive Sector Exposure Driving Year-to-Date Performance** By selecting stocks based on high dividend yields and then weighting them based on the dollar value of regular cash dividends paid to shareholders, the WisdomTree High Dividend Index typically exhibits a value tilt. However, by focusing on dividends in the selection and weighting process—unlike some market cap-weighted value indexes—this strategy typically generates a higher starting dividend yield and greater overall exposure to the "defensive sectors" of the market. As of February 2016, the WisdomTree High Dividend Index had a trailing dividend yield of 4.5%, compared to 2.9% for the Russell 1000 Value Index and 2.4% for the S&P 500 Index. In addition, the WisdomTree Index has 47% of its weight in the Consumer Staples, Telecom, Utilities and Health Care sectors, compared to just 32% for the S&P 500. (Index rules,

updated in 2012, require that no sector can be more than 25% of the Index's weight at the annual rebalance, which occurs in December.) So far in 2016 that combination has contributed to the WisdomTree High Dividend Index outperforming the Russell 1000 Value Index by 540 basis points (bps) and the S&P 500 Index by 533 bps in a down market. When we drill down and examine the top 10 holdings of the WisdomTree High Dividend Index, we can see that roughly 38% of the overwhelmingly large-cap Index is concentrated in well-known, mega-cap stocks. In a year when headlines warn that global equity markets are heading into bear territory, seven of the top 10 constituents in the WisdomTree Index actually generated *positive* returns thus far in 2016. Three of the top 10 names have actually posted new 52-week highs in 2016. And all 10 have been able to increase dividend-per-share payments over the past year, despite, in some cases, headwinds that have caused earnings to contract year over year. **Top 10 Holdings in WisdomTree High Dividend Index**

| WisdomTree High Dividend Index Top 10 Holdings | Weight | YTD Total Return as of 2/17/2016 | Price as of 2/17/2016 | 52-Week High | % of 52 Week High | Market Cap | Sector | P/E | YoY T12M EPS Growth | 2015 YoY DPS Growth |
|---|---|---|---|---|---|---|---|---|---|---|
| AT&T | 5.53% | 7.98% | 36.64 | 37.11 | 98.73% | 225,716,830,000 | Telecommunication Services | 15.25 | -2.82% | 2.17% |
| Exxon Mobil | 5.46% | 6.15% | 82 | 91.01 | 90.10% | 344,191,756,172 | Energy | 21.15 | -48.07% | 6.67% |
| Verizon Communications | 4.57% | 10.22% | 50.3 | 50.97 | 98.69% | 205,132,239,202 | Telecommunication Services | 12.66 | 18.81% | 3.50% |
| General Electric | 3.67% | -5.81% | 29.34 | 31.28 | 93.80% | 276,435,276,474 | Industrials | 21.66 | -1.46% | 4.55% |
| Chevron Corp. | 3.56% | -0.60% | 88.31 | 111.73 | 79.04% | 166,165,020,596 | Energy | 25.96 | -66.54% | 1.65% |
| Procter & Gamble | 3.35% | 4.74% | 82.45 | 86.26 | 95.58% | 221,341,645,430 | Consumer Staples | 20.82 | 1.81% | 3.95% |
| Wal-Mart Stores Inc. | 3.05% | 7.85% | 66.11 | 86.29 | 76.61% | 206,310,440,719 | Consumer Staples | 14.12 | -12.10% | 2.09% |
| Philip Morris Int. | 2.93% | 3.78% | 91.23 | 91.23 | 100.00% | 141,718,811,800 | Consumer Staples | 20.45 | -14.91% | 5.24% |
| Pfizer | 2.85% | -7.28% | 29.63 | 36.15 | 81.96% | 183,331,998,131 | Health Care | 16.85 | -5.88% | 7.69% |
| Coca-Cola | 2.61% | 1.23% | 43.49 | 43.84 | 99.20% | 188,319,915,177 | Consumer Staples | 20.97 | 3.50% | 8.20% |

Source: Bloomberg, as of 2/17/16. Past performance is not indicative of future results. You cannot invest directly in an index. Subject to change. References to specific securities and their issuers are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations to purchase or sell such securities.

*For definitions of terms and indexes in the chart, visit our glossary.* **Beta, Volatility and Risk-Adjusted Returns, 2011–2016** The other appealing aspect of the strategy is that it has the potential to lower overall volatility and beta compared to traditional cap-weighted indexes. Since 2011, the WisdomTree High Dividend Index has had a beta of 0.67 versus the S&P 500. Its standard deviation over that five-year period was 2.5 percentage points less than the S&P 500 and nearly 3 percentage points less than the Russell 1000 Value. This reduction in standard deviation contributed to a higher risk-adjusted return over the period, as measured by its higher Sharpe ratio, a measure of risk-adjusted return. And unlike some of the minimum-volatility indexes that today sport P/E ratios north of 20,[2] the WisdomTree High Dividend Index posts a trailing P/E ratio of 17.5[3], in line with the market multiple of 17.4 times trailing earnings exhibited by the S&P 500. **Conclusion** Through the first six weeks of 2016, the WisdomTree High Dividend Fund (DHS) has been WisdomTree's most defensive long-only equity exchange-traded fund in this turbulent market. The stock selection and weighting methodology tilts the portfolio toward higher-dividend-yielding stocks and toward today's most defensive sectors. That combination has the potential to help investors squeeze more dividend income out of the market, while limiting downside volatility.

[1]U.S. equity market represented by the S&P 500 Index and developed markets represented by MSCI EAFE Index as of 2/15/16. [2]Source: Bloomberg. MSCI USA Minimum Volatility Index exhibited a trailing 12-month P/E of 21 on 2/17/15. [3]As of 2/17/16.

#### Important Risks Related to this Article

Dividends are not guaranteed, and a company currently paying dividends may cease paying dividends at any time.

There are risks associated with investing, including possible loss of principal. Funds focusing their investments on certain sectors may be more vulnerable 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 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.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages ( www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.

You cannot invest directly in an index.

## DEFINITIONS

**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.

**Dividend** : A portion of corporate profits paid out to shareholders.

**Defensive sectors** : Consumer Staples, Health Care, Telecommunication Services and Utilities.

**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.

**Dividend yield** : A financial ratio that shows how much a company pays out in dividends each year relative to its share price.

**Russell 1000 Value Index** : A measure of the large-cap value segment of the U.S. equity universe, selecting from the Russell 1000 Index.

**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 tim.

**Market capitalization-weighting** : Market cap = share prices x number of shares outstanding. Firms with the highest values receive the highest weights in approaches designed to weight firms by market cap.

**Basis point** : 1/100th of 1 percent.

**Mega Cap** : Market Capitalization over $100 Billion.

**Bear market** : A sustained downturn in market prices, increasing the chances of negative portfolio returns.

**Dividends per Share** : The sum of declared dividends for every ordinary share issued. Dividend per share (DPS) is the total dividends paid out over an entire year (including interim dividends but not including special dividends) divided by the number of outstanding ordinary shares issued.

**Volatility** : A measure of the dispersion of actual returns around a particular average level. .

**Standard deviation** : measure of how widely an investment or investment strategy's returns move relative to its average returns for an observed period. A higher value implies more "risk", in that there is more of a chance the actual return observed is farther away from the average return.

**Risk-adjusted returns** : Returns measured in relation to their own variability. High returns with a high level of risk indicate a lower probability that actual returns were close to average returns. High returns with a low level of risk would be more desirable, as they indicate a higher probability that actual returns were close to average returns.

**Sharpe ratio** : Measure of risk-adjusted return. Higher values indicate greater return per unit of risk, specifically standard deviation, which is viewed as being desirable.

**Price-to-earnings (P/E) ratio** : Share price divided by earnings per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested.

**Downside** : Currency depreciation.

**MSCI EAFE Index** : is a market cap-weighted index composed of companies representative of the developed market structure of developed countries in Europe, Australasia and Japan.