WHAT IS BETA WHEN IT COMES TO DIVIDENDS?

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What makes the WisdomTree Total Dividend Fund (DTD) special? It could be that DTD tracks the broadest barometer of dividend-paying stocks in the United States—the WisdomTree Dividend Index (WTDI) —and therefore comes as close as any one dividend fund does to representing "beta" for the dividend-paying part of the U.S. stock market. With so many specialized exchange-traded funds (ETFs) and mutual funds seeking to provide investors exposure to dividend-paying stocks, picking any one to represent the entire dividend-paying universe in the U.S. is no easy task. Short of calculating the returns from all of these funds and coming up with an average, perhaps a simple way to keep track of how U.S. dividend-paying stocks are doing is to quote the returns of an index that, in effect, measures the performance of virtually all investable U.S. companies that pay regular cash dividends.[1] One that does so is the WisdomTree Dividend Index, which includes nearly 1,400 dividend-paying common stocks and real estate investment trusts (REITs) with a combined market capitalization of approximately $18 trillion as of September 2016. The same logic that applies to index-based investing applies to dividend-based investing. If you can limit stock selection risk and get the market's return at low cost,[2] the odds are against actively managed strategies beating you in aggregate, particularly if they charge higher fees and incur more transaction costs in the process. ETFs or mutual funds that select only a subset of the dividend payers, in effect, compel investors to make an "active bet," which may lead to underperformance against the broader universe. If you are using a mutual fund, high management fees may also eat into the dividend distributions that would otherwise go to investors. And because mutual funds often need to keep cash on hand to meet redemptions, such dividend-based strategies may have difficulty capturing 100% of the market's upside during sustained rallies. Now that DTD has a 10-year track record, it is easy to compare how this broad, dividend-based ETF has done versus the universe of active managers and ETFs that Morningstar typically groups within the large-cap value category. For standardized performance of DTD, click here. Read more about common differences between ETFs and mutual funds.

		Percent of Peers Beaten as of 6/30/2016			
Fund/Index	**Morningstar Category**	**1-Year**	**3-Year**	**5-Year**	**10-Year**
WisdomTree Total Dividend Fund	Large Value	90%	95%	95%	84%
WisdomTree Dividend Index		91%	96%	97%	91%
Russell 3000 Value Index		71%	79%	83%	62%
Russell 3000 Index		68%	94%	90%	88%
Number of Peers		1,424	1,218	1,067	787

Sources: WisdomTree, Morningstar as of 6/30/2016. Past performance is not indicative of future results. You cannot invest directly in an index.

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Of 787 competitors in the category with a track record going back 10 years, DTD beat 84% of them over the last decade. Over the last three- and five-year periods, DTD beat 95% of the more than 1,000 competing large-cap value funds, simply by tracking an index that includes all the dividend payers in the U.S. weighted based on the dividends they pay. Normally, if an index provides the broadest exposure to an asset class, it has a good chance to qualify as the "beta" for the category. If WisdomTree had weighted index components by their market value and created a traditional cap-weighted index, WTDI could well have become the benchmark against which equity income ETFs and actively managed dividend funds are typically compared. However, the research WisdomTree did prior to launching the Index more than a decade ago indicated that had we weighted components by market value, we would have added volatility to the Index, reduced the starting dividend yield and possibly reduced future return potential. So we chose to rebalance the Index annually and set weights based on the regular cash dividends that companies pay. Risk and return data from the last 10 years confirms that we made the right decision.

Index/Statistics	As of 7/31/2016						
WisdomTree Dividend	Year-To-Date	1-Year	3-Year	5-Year	7-Year	10-Year	6/1/2006 – 7/31/2016
Average Annual Return	11.92%	10.29%	11.10%	13.84%	15.29%	7.69%	7.85%
Beta*	0.78	0.88	0.89	0.81	0.92	0.92	0.92
Standard Deviation	8.40%	13.66%	10.48%	10.60%	11.46%	15.05%	14.93%
Sharpe Ratio	1.40	0.74	1.05	1.30	1.33	0.45	0.46
NASDAQ US Dividend Achievers Select							
Average Annual Return	10.74%	8.64%	9.30%	12.03%	13.08%	8.01%	7.87%
Beta*	0.61	0.76	0.89	0.83	0.81	0.81	0.81
Standard Deviation	6.96%	12.09%	10.61%	10.88%	11.40%	13.19%	13.09%
Sharpe Ratio	1.52	0.70	0.87	1.10	1.14	0.54	0.53
Russell 3000							
Average Annual Return	7.74%	4.44%	10.59%	12.99%	14.36%	7.82%	7.70%
Beta*	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Standard Deviation	10.35%	15.14%	11.29%	12.54%	13.30%	15.79%	15.66%
Sharpe Ratio	0.73	0.28	0.93	1.03	1.07	0.44	0.43

Sources: WisdomTree, Zephyr StyleADVISOR as of 7/31/2016. *Beta is relative to the Russell 3000 Index. You cannot invest directly in an index. Past performance is not indicative of future results.

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.

For definitions of terms and indexes in the chart, visit our glossary. As we can see from the table above, since its inception back in 2006, the WisdomTree Dividend Index has been able to generate higher risk-adjusted returns, measured by the Sharpe ratio, than the Russell 3000 Index in each of the periods displayed. Total returns for the WisdomTree Dividend Index were higher for most of these periods, while the standard deviation of WTDI's returns came in lower across all of the time periods displayed. What's also interesting is how well all the dividend stocks in aggregate performed against a specialty index that selects components based upon a company's history of raising dividends over time. The NASDAQ US Dividend Achievers Select Index, which serves as the underlying index for the ETF industry's largest dividend ETF as measured by assets under management, curiously enough has underperformed the WisdomTree Dividend Index not just in 2016, but for the last one-, three-, five- and seven-year periods. Put another way, the NASDAQ index, which includes only companies that have raised their dividends over time, has underperformed an index that simply included all the dividend payers for every annualized period going back seven years, through July 31, 2016. The NASDAQ strategy, which was under-weight in the Financials sector going into the financial crisis, was rewarded for that active bet against the broader market, and therefore generated the best returns over the entire 10-year period. But the benefit of that bet has dissipated over time, as the NASDAQ index has underperformed both the Russell 3000 Index and the WisdomTree Dividend Index over the last three-, five and seven-year periods, on an annualized basis. **Conclusion** It is true that the dividend-paying segment of the U.S. market is a subset of the U.S. equity market. So any broad-based index that selects only dividend-paying stocks will make an "active bet" relative to the overall U.S. stock market by excluding the non-dividend payers. On the other hand, about 87% of the weight in the S&P 500 Index is currently in dividend-paying stocks. And the aggregate market capitalization of the approximately 1,400 companies that do pay dividends in the U.S. typically comprise about 75% to 80% of the weight of the Russell 3000. Owning the dividend-paying segment of the U.S. market has consistently generated higher risk-adjusted returns than owning market cap-weighted. And DTD, which provides investors access to this strategy in a lower-fee ETF, has been able to beat the vast majority of actively managed funds and competitor ETFs over the last decade. [1]The WisdomTree Dividend Index measures the performance of U.S. companies listed on the NYSE, AMEX or NASDAQ Global Market that pay regular cash dividends and that meet other liquidity and capitalization requirements established by WisdomTree. [2]Ordinary brokerage commissions apply.

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You cannot invest directly in an index.

DEFINITIONS

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

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.

Real estate investment trust (REIT) : Investment structure containing a basket of different exposures to real estate, be it directly in properties or in mortgages. Returns predominantly relate to changes in property values and income from rental payments.

Actively managed ETFs : Investment strategy where a manager selects securities in an attempt to outperform the performance benchmark.

Large 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 is achieved while focusing on relatively larger companies.

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

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

Rebalance : An index is created by applying a certain set of selection and weighting rules at a certain frequency. WisdomTree rebalances, or re-applies its rules based selection and weighting process on an annual basis.

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.

Russell 3000 Index : Measures the performance of the 3,000 largest U.S. companies based on total market capitalization.

NASDAQ US Dividend Achievers Select Index : Designed to track the performance of dividend-paying companies in the U.S. that have increased their annual dividend payments for the last 10 or more consecutive years.

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.

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.

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.