

# WISDOMTREE U.S. VALUE FUND: HIGH VALUE BUYBACKS

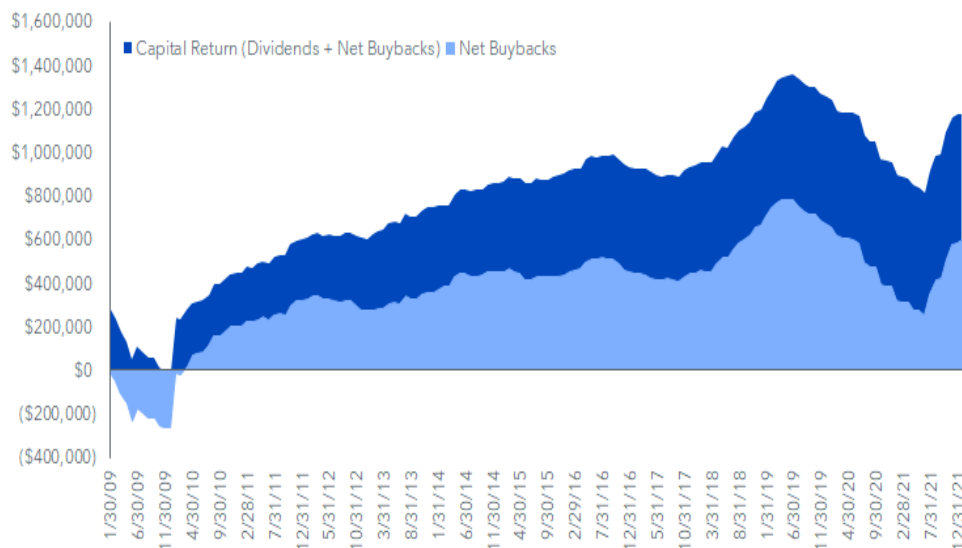
Kara Marciscano – Associate, Research  
02/22/2022

[Buybacks](#) are a viral topic because they reached near peak levels in 2021. Many argue that these repurchases were done at the market’s peak, implying that companies bought back their own shares at overvalued multiples—an inefficient use of capital that is likely to earn a poor return on investment for their shareholders.

It’s true that buybacks were historically elevated in 2021. And it may be true that some companies could have better allocated capital into less expensive investments, but it’s certainly not true for all.

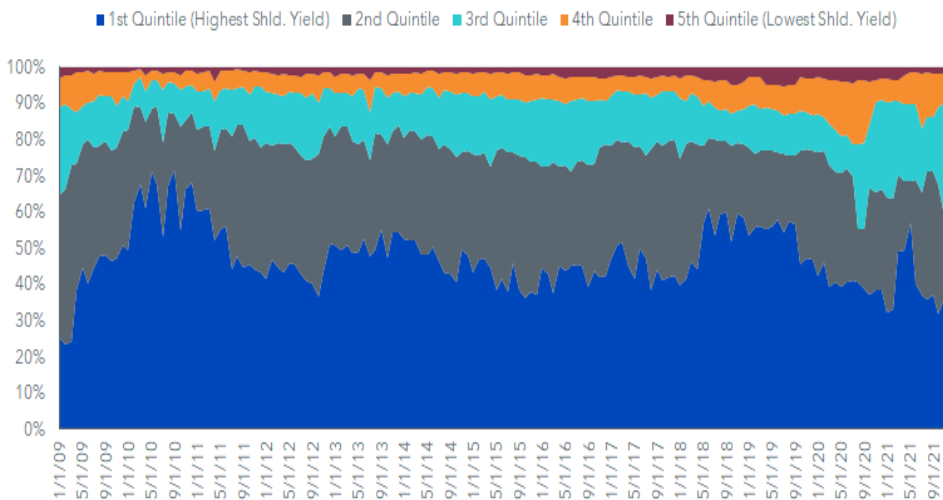
Not all buybacks are created equal. In fact, our analysis of repurchases within the [Russell 1000 Index](#) indicates that most net repurchases were executed by companies categorized with the highest [shareholder yield](#)—in other words, by companies that are repurchasing shares at more attractive levels relative to their [market capitalizations](#).

**Russell 1000 Index—Trailing 12-Month Net Buybacks (\$m)**



Sources: WisdomTree, FactSet, FTSE Russell, for the period 1/30/09–12/31/21

**Russell 1000 Index—% of Net Buybacks by Shareholder Yield Quintile**



Sources: WisdomTree, FactSet, FTSE Russell, for the period 1/30/09–12/31/21

Ideally, share repurchase programs are opportunistic and antidilutive, meaning that buybacks are done at discounted [valuations](#) and result in a significant reduction to the number of shares outstanding. In this scenario, buybacks have the potential to create value for shareholders by increasing their share in a company that, ideally, increases in value over time.

The [WisdomTree U.S. Value Fund \(WTV\)](#) aims to identify companies that fit within these preferred buyback guardrails and that are also exhibiting superior [quality](#) metrics.

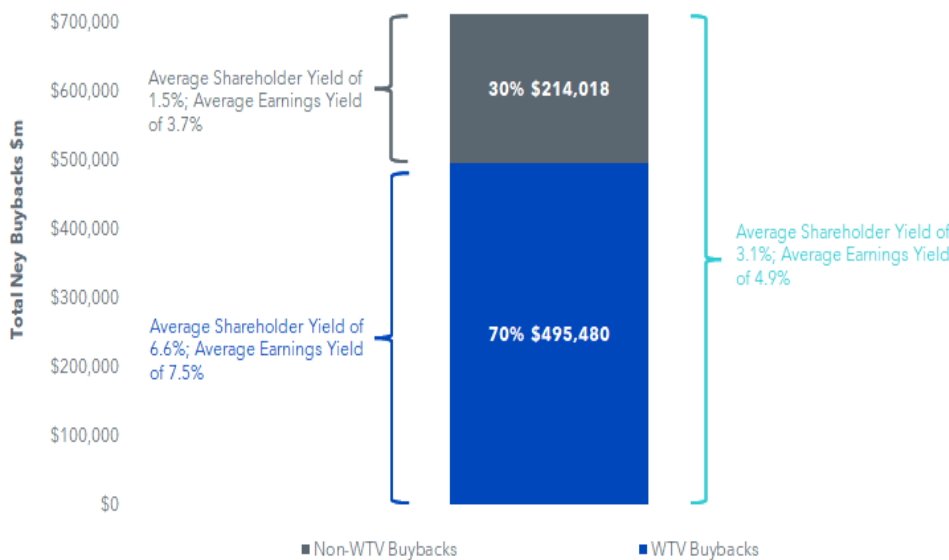
[WTV](#) ranks and selects companies based on a composite score of their shareholder yield and quality metrics. In this dual framework, shareholder yield identifies companies that are repurchasing stock at attractive levels relative to their market capitalization, while the quality component identifies companies with higher relative efficiency, profitability and cash flow.

[WTV](#) held 146 stocks as of its most [recent rebalance](#), capturing 70% of the buybacks executed by the 800 largest U.S. stocks in the trailing 12 months.

Importantly, the average shareholder (6.6%) and earnings (7.5%) yields of [WTV](#) constituents are significantly higher than those of the non-[WTV](#) constituents (1.5% and 3.7%). In short, this indicates that the companies in [WTV](#) are buying back their shares at more attractive relative valuations than those that do not make the cut into the basket.

The companies in [WTV](#) are also meaningfully reducing their share counts. On average, companies in [WTV](#) reduced their shares outstanding by 2.8% in the trailing 12 months while the remainder of the 800 large-cap U.S. stock universe increased share counts by 1.1% on average, which dilutes shareholder ownership.

**800 Largest U.S. Stocks–Trailing 12-Month Buybacks (\$m)**



Sources: WisdomTree, FactSet, as of 12/31/21.

As discussed, quality is an equally important ingredient to the [WTV](#) recipe. The strategy targets companies that are generating more profit and cash flow per dollar invested in the business, which is why [WTV](#)'s return on equity and assets are at the higher end relative to benchmarks for broad and value-focused U.S. equities.

One valid concern with buybacks is whether they are financed with debt or equity. An added benefit to [WTV](#)'s quality screen is that the constituents of the Fund have lower debt-to-asset ratios than the broader benchmarks.

	Return on Equity	Return on Assets	Debt-to-Assets	Price-to-Earnings	Dividend Yield	Net Buyback Yield	Shareholder Yield
WisdomTree U.S. Value Fund	20.5%	3.3%	18.6%	12.6x	1.7%	5.6%	7.3%
S&P 500 Index	18.2%	4.0%	22.5%	26.1x	1.2%	1.3%	2.6%
Russell 1000 Index	17.3%	3.8%	22.8%	26.8x	1.2%	1.2%	2.4%
Russell 1000 Value Index	13.4%	2.7%	21.1%	19.8x	1.8%	1.1%	2.9%

Sources: WisdomTree, FactSet, as of 12/31/21.

For definitions of terms in the chart above, please visit the [glossary](#).

In the current [volatile](#), rising rate environment we believe [WTV](#) companies, with strong balance sheets and profitability metrics, are well positioned for potential outperformance.

**Important Risks Related to this Article**

There are risks associated with investing, including the possible loss of principal. Funds focusing their investments on certain sectors increase their vulnerability to any single economic or regulatory development. This may result in greater share price volatility. While the Fund is actively managed, the Fund's investment process is expected to be heavily dependent on quantitative models and the models may not perform as intended. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

WTV was formerly the WisdomTree U.S. Quality Shareholder Yield Fund (QSY).

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.

**Related Blogs**

+ [The New Year Reset: The WisdomTree U.S. Value Fund](#)

**Related Funds**

+ [WisdomTree U.S. Value Fund](#)

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](http://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

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

**Russell 1000 Index**: A measure of the performance of the 1,000 largest companies by market capitalization in the Russell 3000 Index.

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

**Market Capitalization**: 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.

**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.

**Quality**: Characterized by higher efficiency and profitability. Typical measures include earnings, return on equity, return on assets, operating profitability as well as others. This term is also related to the Quality Factor, which associates these stock characteristics with excess returns vs the market over time.

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