

# DIVIDEND WEIGHTED INDEXES CRUSH THE MARKET IN Q1

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[Dividend](#) stocks beat the market in Q1—and they did so convincingly across every major size segment in the U.S. The table below quantifies those excess returns, using WisdomTree's dividend-weighted size cuts as barometers for the performance of dividend-paying stocks across the capitalization spectrum. **Index Performance**

Index	WisdomTree Index Inception Date	Average Annual Total Returns as of 3/31/2016				
		YTD	1-Year	3-Years	5-Years	Since WisdomTree Index Inception
<b>WisdomTree Dividend Index</b>	<b>6/1/2006</b>	<b>4.34%</b>	<b>3.15%</b>	<b>10.91%</b>	<b>12.15%</b>	<b>7.36%</b>
<b>Russell 3000 Value Index</b>		1.64%	-2.05%	9.08%	9.95%	5.74%
<b>Russell 3000 Index</b>		0.97%	-0.34%	11.15%	11.01%	7.26%
<b>WisdomTree LargeCap Dividend Index</b>	<b>6/1/2006</b>	<b>3.93%</b>	<b>3.36%</b>	<b>10.74%</b>	<b>12.06%</b>	<b>7.06%</b>
<b>Russell 1000 Value Index</b>		1.64%	-1.54%	9.38%	10.25%	5.82%
<b>S&amp;P 500 Index</b>		1.35%	1.78%	11.82%	11.58%	7.30%
<b>WisdomTree MidCap Dividend Index</b>	<b>6/1/2006</b>	<b>7.40%</b>	<b>3.38%</b>	<b>12.97%</b>	<b>13.22%</b>	<b>8.78%</b>
<b>Russell Midcap Value Index</b>		3.92%	-3.39%	9.88%	10.52%	7.48%
<b>S&amp;P MidCap 400 Index</b>		3.79%	-3.60%	9.46%	9.52%	8.27%
<b>WisdomTree SmallCap Dividend Index</b>	<b>6/1/2006</b>	<b>6.30%</b>	<b>-1.59%</b>	<b>9.35%</b>	<b>10.70%</b>	<b>6.89%</b>
<b>Russell 2000 Value Index</b>		1.70%	-7.72%	5.73%	6.67%	4.92%
<b>Russell 2000 Index</b>		-1.52%	-9.76%	6.84%	7.20%	5.97%
<b>WisdomTree High Dividend Index</b>	<b>6/1/2006</b>	<b>8.06%</b>	<b>8.38%</b>	<b>11.27%</b>	<b>13.61%</b>	<b>6.64%</b>
<b>Russell 1000 Value Index</b>		1.64%	-1.54%	9.38%	10.25%	5.82%

Source: Bloomberg as of 4/5/2016. Past performance is not indicative of future results. 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.

For definitions of indexes in the chart, visit our [glossary](#). The excess returns were significant. The [WisdomTree Dividend Index](#), which measures the performance of more than 1,400 U.S. dividend-paying stocks, beat the [Russell 3000 Index](#) by 337 [basis points \(bps\)](#) in Q1. The [WisdomTree MidCap Dividend Index](#) beat the [S&P MidCap 400](#) by 362 bps. And the [WisdomTree SmallCap Dividend Index](#) returned 6.3%, during a quarter when the [Russell 2000 Index](#) declined by 1.5%. I think there are three basic reasons why dividend stocks performed so well in the first quarter of 2016. First, [value](#) stocks reversed a multi-year trend and trumped [growth](#) stocks in Q1. Value stocks across the board, as measured by the value indexes highlighted above, outperformed the [beta](#) benchmark in their respective size categories. When value stocks beat growth stocks, a tailwind can be created for dividend-weighted indexes, as they tend to tilt toward relative value. Second, with the rise in the [CBOE Volatility Index \(VIX\)](#) intra-quarter, I believe investors were rotating toward the more defensive portion of the market. WisdomTree's larger-cap Indexes are typically over-weight the more [defensive sectors](#) of the market and thus benefitted from the outperformance of the market's three best-performing sectors in Q1: Utilities, Telecom and Consumer Staples. Also of note: Health Care ended up being the poorest-performing sector of the [S&P 500 Index](#) in the first quarter. All five of the WisdomTree Indexes mentioned above were under-weight health care compared to their [market cap-weighted](#) peers. Third, I believe, the market's recalibration of how fast the [Federal Reserve \(Fed\)](#) will increase [interest rates](#) in 2016 benefitted the higher-yielding portion of the U.S. equity market. The fact that foreign central banks

have sent interest rates into negative territory helps keep a lid on how high the [yield](#) on the [10-year Treasury](#) can go. This is good for utilities, telecoms and [real estate investment trusts \(REITs\)](#) that have competitive yields relative to 10-Year Treasuries and [investment-grade corporate debt](#). The best performance of the five WisdomTree dividend-weighted Indexes highlighted above was generated by the [WisdomTree High Dividend Index](#). This Index, which selects stocks with high dividend yields and then weights them based on the cash dividends they pay, returned 8.0% for the quarter, compared to 1.64% for the [Russell 1000 Value Index](#). As of April 1, this WisdomTree Index exhibited a trailing dividend yield of 4.1%, the highest dividend yield of any of [WisdomTree's U.S. equity Indexes](#). **Conclusion** WisdomTree's dividend-weighted Indexes had an excellent first quarter, beating comparable cap-weighted indexes. In many instances, WisdomTree's dividend-weighted approach has been able to generate higher total returns over the last three-, five- and nearly ten-year periods, despite value underperforming growth in the U.S. over those periods. For investors looking to combine higher dividend yields with the potential for more defensive U.S. equity exposure, WisdomTree's dividend-weighted size cut strategies could provide clear alternatives to strategies that track traditional cap-weighted indexes in all of the major size segments of the U.S. market.

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You cannot invest directly in an index.

## DEFINITIONS

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

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

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

**S&P MidCap 400 Index** : provides investors with a benchmark for mid-sized companies. The index covers over 7% of the U.S. equity market, and seeks to remain an accurate measure of mid-sized companies, reflecting the risk and return characteristics of the broader mid-cap universe on an on-going basis.

**Russell 2000 Index** : Measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

**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.

**Growth** : Characterized by higher price levels relative to fundamentals, such as dividends or earnings. Price levels are higher because investors are willing to pay more due to their expectations of future improvements in these fundamentals.

**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.

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

**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.

**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.

**Federal Reserve** : The Federal Reserve System is the central banking system of the United States.

**Interest rates** : The rate at which interest is paid by a borrower for the use of money.

**Yield** : The income return on an investment. Refers to the interest or dividends received from a security that is typically expressed annually as a percentage of the market or face value.

**10- Year Treasury** : a debt obligation of the U.S. government with an original maturity of ten years.

**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.

**Investment grade** : An investment grade is a rating that signifies a municipal or corporate bond presents a relatively low risk of default.

**Corporate debt** : Bonds a company issues in order to raise money.

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

Russell 1000 Index.