

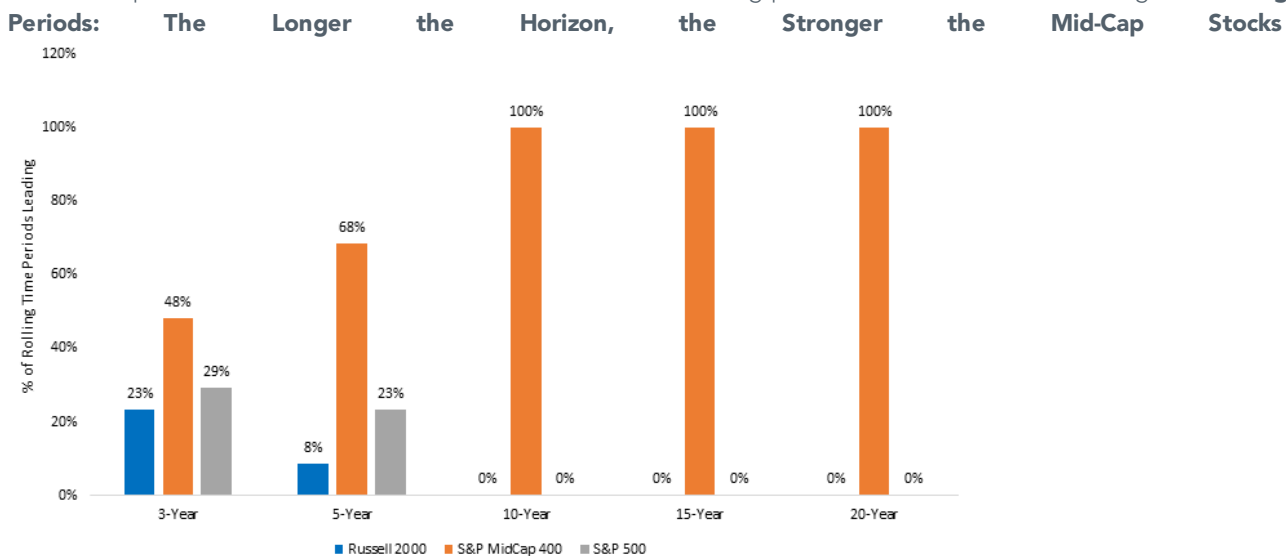
MIDDLE MANAGEMENT: INCREASING MID CAP ALLOCATIONS

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It is hard being stuck in the middle. Just look at mid-cap stocks. On a historical basis, mid-caps outperform their large- and small-cap counterparts. Yet many investors typically favor the perceived stability of large caps or the growth prospects offered by smaller companies. Mid-caps aren't as widely followed as the [S&P 500 Index](#), and any mid-cap or mid-cap value premium isn't widely discussed. Still, mid-caps provided superior long-term, risk-adjusted returns, a trait WisdomTree believes is durable. **No Performance Anxiety for Mid-Caps** Investors thinking about a potential under-allocation to any asset class usually "follow the performance." With mid-caps, it's instructive to analyze rolling periods.¹

• **Rolling Three-Year Periods:** Based on available data since July 31, 1991, the [S&P MidCap 400 Index](#) beat both the S&P 500 and [Russell 2000 indexes](#) almost 50% of the time. • **Rolling Five-Year Periods:** The S&P MidCap 400 Index beat both the S&P 500 and Russell 2000 indexes almost 70% of the time. • **Rolling 10-, 15- and 20-Year Periods:** The S&P MidCap 400 Index beat the other two indexes in 100% of rolling periods of these three distinct lengths. **Rolling**

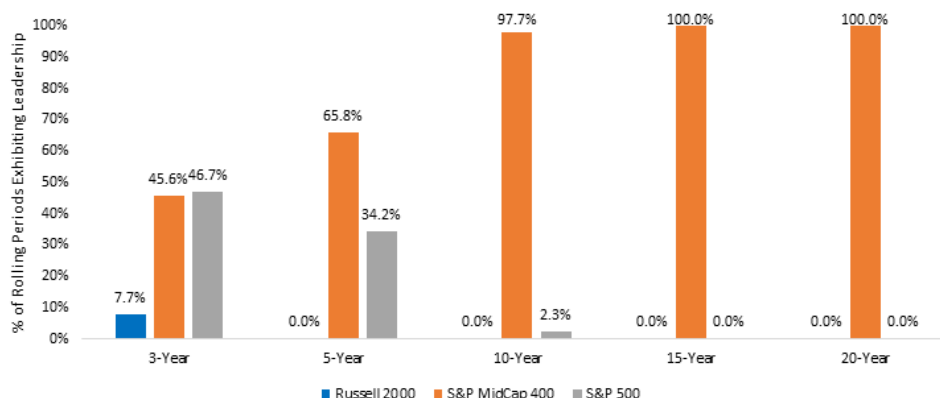


Sources: WisdomTree, Bloomberg, with data from 7/31/1991 to 3/31/2016. Past performance is not indicative of future results. You cannot invest directly in an index.

Mid-Cap Risk Isn't

Excessive Our analysis of rolling periods clearly shows the long-term strength of mid-caps but this doesn't account for risk. It is the perception of elevated risk that shifts investors' focus away from mid-caps. Rolling period [Sharpe ratios](#) of mid-caps had superior risk-adjusted returns.² • **Rolling Three-Year Periods:** We saw that the S&P MidCap 400 beat both the S&P 500 and Russell 2000 indexes in almost 50% of these periods. Shifting from absolute returns to the Sharpe ratio, we see that the S&P 500 and S&P MidCap 400 led during almost the same amount of these periods. The S&P 500 typically had a lower risk, whereas the S&P MidCap 400 typically had higher returns. • **Rolling Five-Year Periods:** Interestingly, on an absolute return basis, the S&P MidCap 400 outperformed both the S&P 500 and Russell 2000 indexes about two-thirds of the time. Shifting to the Sharpe ratio yielded the same result, but the biggest change was that the higher risk of the Russell 2000 led to the S&P 500 leading in a greater number of rolling periods. • **Rolling 10-, 15- and 20-Year Periods:** Similar to the absolute returns analysis, on a Sharpe ratio basis the S&P MidCap 400 Index dominates

both the S&P 500 and Russell 2000 indexes. **Rolling Periods: Mid-Caps Also Did Well at Risk-Adjusted Returns**



Sources: WisdomTree, Bloomberg, Kenneth French Data Library (for risk-free rate), from 7/31/1991 to 3/31/2016. Past performance is not indicative of future results. You cannot invest directly in an index.

Risk/Return Says Mid-

Caps Warrant Consideration Empirical long-term data proves that mid-caps are strong performers, calling into question the disproportionate amount of attention afforded to large and small caps while mid-caps quietly outperformed on both a risk-adjusted and absolute basis.

¹Sources: WisdomTree, Bloomberg, with data from 7/31/1991 to 3/31/2016. ²Sources: WisdomTree, Bloomberg, Kenneth French Data Library (for risk-free rate) from 7/31/1991 to 3/31/2016.

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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.

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.

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.