

BUYBACKS ARE BECOMING POPULAR IN JAPAN

Christopher Gannatti — Global Head of Research
06/15/2015

While European equities have certainly gotten attention in 2015, we'd also like to emphasize [how well Japan's equities have been doing](#). The [Nikkei 225 Index](#) was over 20,200 as of May 22, 2015, a level not seen in 15-years. There is wide debate regarding the effectiveness of [Abenomics](#), but we think that focusing too much on the economic aspects of Abenomics may be missing the point: An equity investment in Japan is an investment in *companies* rather than *economic growth*. **Focus on Shareholder Returns** Programs and policies focused on "shareholder returns" are becoming increasingly popular across Japanese companies. This is likely to address the "problem" of having large stockpiles of cash. Many of these firms are committing to return that cash to shareholders, either through dividends or buybacks. One reason for this comes from the establishment of the [JPX-Nikkei 400](#), which makes membership contingent on such factors as profitability and [return on equity](#). Disbursing cash to shareholders is one way to boost return on equity. This type of commitment to shareholders in Japan is not something we saw from Japanese firms during the 15 deflationary years between 1998 and 2013.

How Fast Are Buybacks Growing in Japan?

Index	Total Return ¹	Dividend Yield		Earnings Yield		Buyback Yield		Aggregate Buyback (billions)	
	4/30/14 to 4/30/15	4/30/14	4/30/15	4/30/14	4/30/15	4/30/14	4/30/15	4/30/14	4/30/15
WisdomTree Japan Dividend Growth Index	38.42%	2.40%	2.00%	7.36%	6.08%	0.81%	1.04%	\$10.42	\$16.76
WisdomTree Japan Dividend Index	39.15%	2.47%	2.07%	7.65%	6.58%	0.27%	0.54%	\$4.26	\$10.91
WisdomTree Japan SmallCap Dividend Index	33.62%	2.16%	1.91%	6.98%	6.49%	0.52%	0.72%	\$2.02	\$3.24
WisdomTree Japan Tech, Media, and Telecom Index	39.71%	1.65%	1.40%	4.43%	5.02%	0.17%	1.03%	\$1.19	\$10.00
WisdomTree Japan Capital Goods Index	36.75%	1.87%	1.71%	7.13%	6.72%	0.12%	0.13%	\$0.94	\$1.08
WisdomTree Japan Financials Index	41.68%	2.27%	1.87%	11.47%	8.64%	1.02%	0.52%	\$3.63	\$2.63
WisdomTree Japan Health Care Index	49.34%	2.16%	1.57%	5.10%	3.60%	0.46%	0.39%	\$1.07	\$1.33
WisdomTree Japan Real Estate Index	27.93%	1.91%	1.67%	4.80%	4.67%	0.48%	0.10%	\$0.40	\$0.28

¹The returns from 4/30/14 to 4/30/15 are shown in "hedged" terms in order to indicate the performance of the Indexes without any impact of currency.

Source: Standard & Poor's, with data as of the specified dates. Past performance is not indicative of future results. You cannot invest directly in an index.

WisdomTree has a wide [toolkit of Japanese equity Indexes](#). This allows us to zero in on which [fundamentals](#) are growing the fastest (dividends, earnings or buybacks) and where Japan's equity markets are showing the greatest growth. All data reflects the one-year period ending April 30, 2015: • **Performance of at Least 28%:** The [WisdomTree Japan Real Estate Index](#) was the "low" performer of the group, up 27.93%. This shows that Japanese equities were very strong over the period. In light of such positive returns, if any measure of yield—dividend yield, buyback yield or earnings yield—actually increased, it would be a strong statement about the growth of that fundamental indeed. • **Dividend Yield:** Each WisdomTree Index saw its dividend yield decrease—not surprising, given the strong performance we saw. • **Earnings Yield:** The [WisdomTree Japan Tech, Media and Telecom Index's](#) earnings yield went from 4.4% to 5.0%—at a time when the Index was up almost 40%. This is a statement of strong earnings growth for the companies in this Index; they actually became less expensive, relative to their earnings, over a period when they were, in aggregate, up almost 40%. • **Buyback Yield:** There were only three Indexes that saw their buyback yields decrease: the [WisdomTree Japan Financials](#), [Health Care](#) and [Real Estate](#) Indexes. Every other Index saw its buyback yield increase, even in the face of strongly positive performance. This proves that, generally speaking, buybacks were growing the fastest relative prices if compared to either dividends or earnings. **Focusing on the [WisdomTree Japan Dividend Growth Index](#)** The WisdomTree Japan Dividend Growth Index is designed to focus on companies with high earnings growth potential as well as high [quality](#). We saw that the WisdomTree Japan Hedged Tech, Media and Telecom Index had strong earnings growth and in aggregate increased its trailing 12-month buyback from approximately \$1.2 billion to \$10 billion. Compared to the [MSCI Japan Index](#) benchmark, the Telecommunication Services sector was a greater than 10% over-weight—the largest over-weight of any sector. It is no accident that the greatest aggregate buybacks—more than \$16 billion—were seen for the WisdomTree Japan Dividend Growth Index. The firms in this Index are the embodiment of the Japanese growth and

quality theme, and since buying back shares increases return on equity, there is the potential for this Index to tilt toward firms that are buying back shares and thereby focusing on shareholder returns. **Unless otherwise noted, data source is Bloomberg.**

Important Risks Related to this Article

Investments focused in Japan increase the impact of events and developments associated with the region, which can adversely affect performance. Dividends are not guaranteed, and a company's future ability to pay dividends may be limited. A company currently paying dividends may cease paying dividends at any time.

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

Return on Equity (ROE) : Measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

Fundamentals : Attributes related to a company's actual operations and production as opposed to changes in share price.

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

Earnings yield : The earnings per share for the most recent 12-month period divided by the current market price per share. The earnings yield (which is the inverse of the P/E ratio) shows the percentage of each dollar invested in the stock that was earned by the company.

Buyback yield : amount of a company's buybacks divided by its market capitalization.

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.

MSCI Japan Index : A market cap-weighted subset of the MSCI EAFE Index that measures the performance of the Japanese equity market.