QUALITY STOCKS IN FOCUS AMID GLOBAL VOLATILITY

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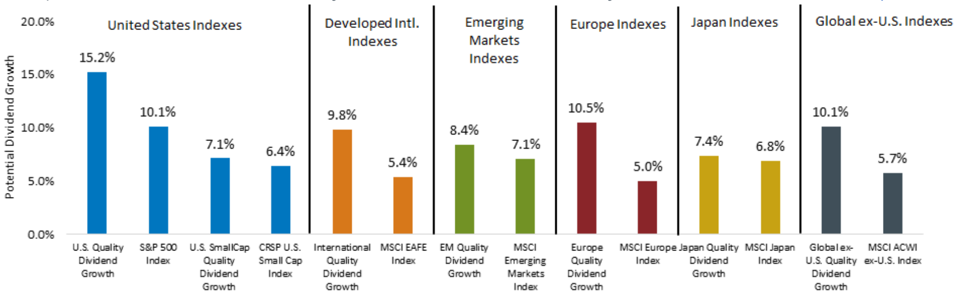
As the market continues to synthesize aspects of China's role within the global economy, there is a premium focus on stocks that can achieve sustainable earnings and dividend growth over the medium to long run. Coupled with this short-term search for income growth opportunities while global growth is scarce is a broader and long-term thematic focus on quality investing and the "quality" factor in both the academic and investment worlds. WisdomTree has been leading this charge with a family of Indexes that cover the major regions and include selection factors designed to pick dividend-paying stocks with quality and growth characteristics. **Big-Picture Criteria** Each of these Indexes is: 1 . **Broadly Focused:** Each of these Indexes had between 250 and 300 underlying constituents.[1] In capturing dividend growth around the world, it is important not to be narrowly focused and open to greater potential stock selection risk. 2. **Not Focused on Past Dividend Growth Behavior:** None of these Indexes utilizes any measure of past or backward-looking dividend growth behavior in order to indicate future dividend growth potential. This is especially important outside of the United States, where dividend behavior could exhibit greater variability. **Half of the Selection Screening—Earnings Growth** This criterion is pretty simple: We believe that firms expected to grow their earnings faster, all other things being equal, should have greater potential to increase their future dividends faster. We understand that these are only estimates, but we believe that while there may be a lot of noise around a single company's precise earnings growth, in aggregate the companies with higher growth expectations—we believe—grow faster than those with lower expectations. **Half of the Selection Screening—Quality** Our quality factor ranking is based on three-year historical averages for return on equity (ROE) and return on assets (ROA). We believe companies that generate greater profitability, controlling for any excessive use of leverage, should have a greater potential to increase their future dividends than firms demonstrating lower profitability metrics. **Back to Buffett** We mentioned in earlier blog posts that in his most recent annual shareholder letter, Warren Buffett said that he looks for "businesses earning good returns on equity while employing little or no debt."[2] Since high leverage implies the use of debt, our use of a quality ranking that incorporates both ROE and ROA enables us to mitigate the use of leverage as a sole driver of what may superficially appear to be a high ROE figure. **How Is Our Approach Tied to Dividend Growth Potential?** The answer lies in the dividend discount model (DDM). The model states that the potential dividend growth of a company is tied to its ability to generate profits and how well those profits are retained for future productive use. One way to look at profit capability is through return on equity, and retention of those profits for future use is the earnings retention ratio. Therefore: **ROE x Earnings Retention Ratio = Dividend Growth Potential** We emphasize that this is simply a measure of potential—it does not mean that all stocks will always reach their full sustainable dividend growth potential. It is, however, a very interesting metric by which to compare WisdomTree's Quality Dividend Growth family to common market capitalization-weighted benchmarks.



Source: Bloomberg, with data as of 9/25/15. Subject to change. Past performance is not indicative of future results. You cannot invest directly in an index.

For definitions of indexes in

the chart, visit our glossary. • **U.S. Large Caps Strongest Overall:** The S&P 500 Index has the strongest return on equity of any market capitalization-weighted Index that we show by a significant margin. It is therefore impressive that U.S. Quality Dividend Growth gets approximately 50% higher. • **Europe Had Highest Relative Difference:** The application of WisdomTree's Quality Dividend Growth methodology had the largest relative impact in Europe, where the potential dividend growth was double that of the MSCI Europe Index. • **International Differentials:** While Europe has the widest differentials, both the developed international and global ex-U.S. saw differentials of similar magnitude, as the market cap-weighted benchmarks saw potential dividend growth in the 5% to 6% range, and the WisdomTree International Quality Dividend Growth and Global ex-U.S. Quality Dividend Growth had a range of 9.8% to 10.1%, also notable differentials. **Conclusion** While the future is of course uncertain, we believe that our dividend growth methodology applies a framework to selecting dividend payers with growth characteristics. We have focused on variables that we believe are key drivers of dividend growth, and this is a theme that could apply to all equities worldwide. With the global market uncertainty, we think quality stocks should receive greater attention from investors.

[1]Source: Standard & Poor's, as of 9/25/2015. [2]Source: Warren E. Buffett, Berkshire Hathaway annual letter to shareholders, 2/28/15.

Important Risks Related to this Article

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.

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

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 tim.

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.

Risk : Also standard deviation, which measures the spread of actual returns around an average return during a specific period. Higher risk indicates greater potential for returns to be farther away from this average.

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

Return on assets (ROA) : Firm profits (after accounting for all expenses) divided by the firm's total assets. Higher numbers indicate greater profits relative to the level of assets utilized to generate them.

Leverage : Total assets divided by equity. Higher numbers indicate greater borrowing to finance asset purchases; leverage can tend to make positive performance more positive and negative performance more negative.

Dividend discount model (DDM) : Method of determining whether a company's share price is currently above or below where it could be if future dividend payments were the key determinant, as opposed to other factors.

Earnings Retention : Proportion of a firm's earnings that are is not paid out to shareholders in the form of a dividend but rather reinvested back into the business. Higher numbers indicate a greater percentage of earnings are being reinvested.

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.

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.