STOCK BUYBACKS CAN BATTLE THE BEAR

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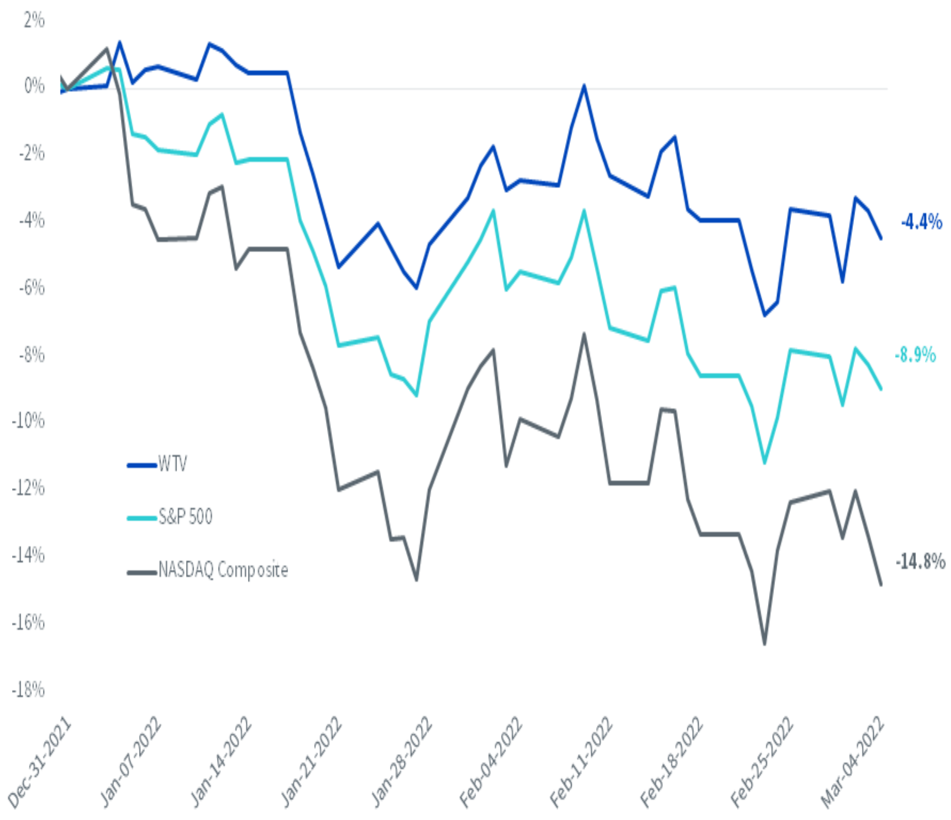
The true investment challenge is to perform well in difficult times.

–Seth Klarman

Navigating 2022 has been an exercise in managing volatility.

On top of ugly market action late last year, the pain has continued in this year's first two months. Anything with a whiff of speculative flavor has a target on its back. While the NASDAQ Composite Index is off 14.8% YTD, and the S&P 500 has fallen 8.9%, our buyback-focused concept—the WisdomTree U.S. Value Fund (WTV)—has only given back 4.4% at NAV.

Figure 1: Year-to-Date Returns

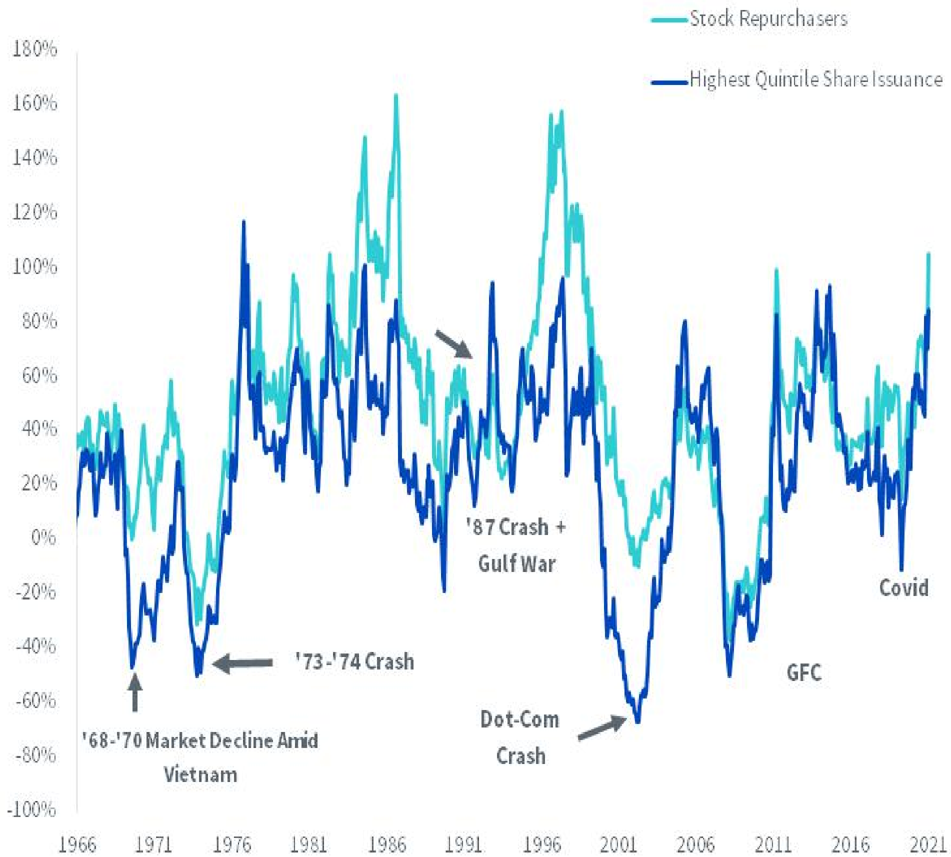


Source: Refinitiv, as of 3/1/22. Past performance is not indicative of future results. You cannot invest direct in an index. **Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost.**

For the most recent month-end and standardized performance click here.

That isn't surprising. The six major bear markets of the last half-century devastated companies that were heavy equity issuers, the kinds of stocks WTV's buyback screen tends to avoid. In crashes, the diluters plunged. While "nobody makes money in a bear market," owners of the "buybackers" lived to see another day.

Figure 2: Three-Year Cumulative Return by Share Issuance



Source: Ken French Database, using CRSP, 7/31/1963–12/31/2021.

For example, look at the 1968–1970 bear market. The heaviest shareholder diluters were halved. Then they caught a three-year rally, only to be halved again in the 1973–1974 bear market.

Or the dot-com wreck. The big diluters declined by two-thirds over three years. In all three of those bear markets—and in the others—the stock repurchasers remained standing.

The red-and-blue color scheme of figure 3 speaks for itself.

Figure 3: Stock Market Returns, 1963–2021, Ranked by Share Buybacks vs. Share Issuance

Decade	Stock Repurchasers	Neither Issuing Nor Buying	Lowest Quintile Share Issuance	2nd Quintile Share Issuance	3rd Quintile Share Issuance	4th Quintile Share Issuance	Highest Quintile Share Issuance
1960s	10.0%	8.5%	7.4%	9.1%	11.6%	9.0%	6.0%
1970s	10.2%	8.9%	6.0%	6.4%	6.4%	3.6%	1.6%
1980s	21.6%	18.6%	17.2%	16.7%	16.5%	14.8%	12.5%
1990s	18.7%	12.6%	15.5%	16.5%	21.0%	20.7%	13.5%
2000s	2.7%	9.2%	3.3%	2.2%	2.9%	-2.7%	-6.5%
2010s	14.3%	16.4%	13.0%	11.6%	16.3%	12.4%	9.8%
2020-2021	24.3%	32.6%	14.7%	20.8%	24.1%	36.7%	20.6%

Source: Ken French database, using CRSP, as of 12/31/2021. Data for the 1960s commences July 1963.

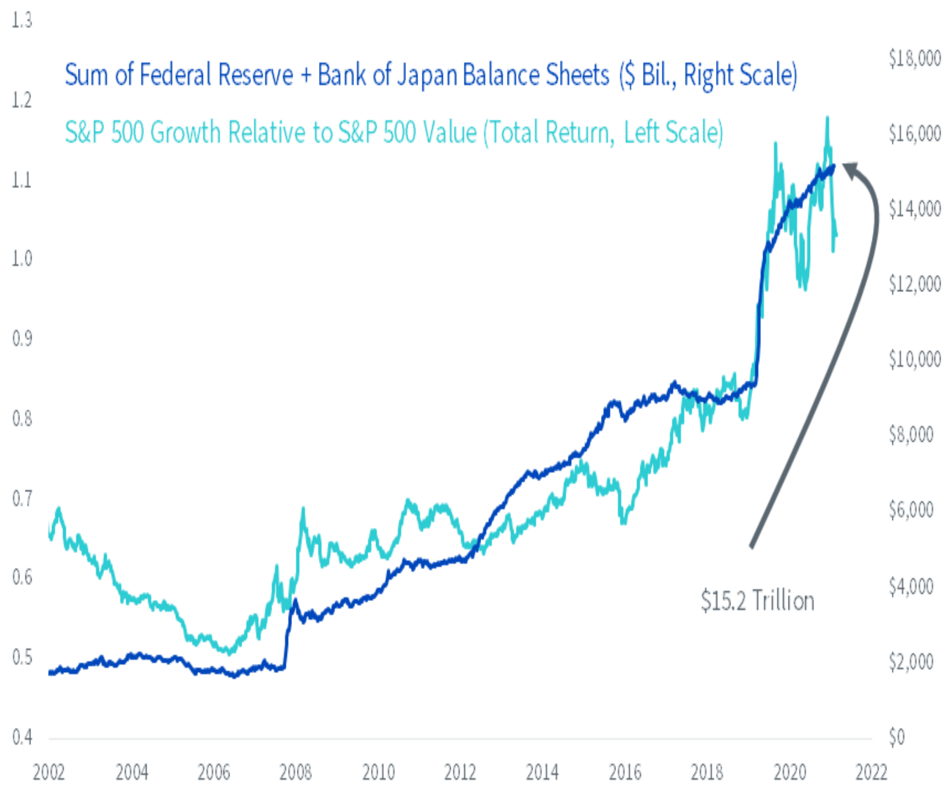
I'm thinking maybe we are in the first inning of a multiyear value cycle (figure 4). If I am right, the diluters are to be avoided.

Figure 4: S&P 500 Growth Relative to S&P 500 Value

Source: Refinitiv, as of 3/1/22. Past performance is not indicative of future results. You cannot invest direct in an index.

Many market watchers, including myself, suspect figure 5 explains growth versus value since the global financial crisis. So long as the Fed and other central banks were expanding their balance sheets to maintain zero interest rates, the present value math on growth stocks' distant cash flows could justify big valuations (figure 5). A few months ago, when investors came to realize the monetary regime was set to flip, the tables turned.

Figure 5: Growth vs. Value: Dependent on Central Banks' Bond Purchases



Sources: Refinitiv, Federal Reserve, Bank of Japan, as of 3/1/22.

We recently cut WTV's expense ratio to 0.12%.

It has a net buyback yield of 5.6%, which is akin to a $10 billion market cap company buying back $560 million worth of stock in a year. That is four times as high as the S&P 500's net buyback yield of 1.4%.

WTV has annually beaten both the S&P 500 Value and the Russell 1000 Value Indexes by more than a percentage point since its inception a generation ago through March 7, 2022. It has zero exposure to share diluters.

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You cannot invest directly in an index.

DEFINITIONS

Nasdaq Composite Index : The market capitalization-weighted index of over 2,500 common equities listed on the Nasdaq stock exchange.

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.

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

Bear market : A sustained downturn in market prices, increasing the chances of negative portfolio returns.

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 tim.

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

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.

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.

Net Buyback Yield : A company's net share buyback is the difference between the capital raised by issuing new shares and the money the company spent on buying back any outstanding shares. A positive net share buyback means that more was spent on buying back existing shares than received from issuing new shares. Net buyback yield is the amount of a company's net buybacks divided by its market capitalization. Please note that net buyback yield does not represent a dividend paid by the company.

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