

# HOW THE TOP 1% OCCUPIED WALL STREET

Luciano Siracusano — Chief Investment Strategist  
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Is it possible for an exchange-traded fund (ETF) to beat 99% of its peers? It is—and three WisdomTree ETFs have done so. Over the last five years, the [WisdomTree SmallCap Dividend Fund \(DES\)](#), the [WisdomTree MidCap Dividend Fund \(DON\)](#) and the [WisdomTree High Dividend Fund \(DHS\)](#) all ranked within the top 1%, beating 99% of [actively managed funds](#), index mutual funds and ETFs in the small-cap value, mid-cap value, and large-cap value categories, according to Morningstar. Over the last five years, all five of the WisdomTree [dividend-weighted](#) ETFs listed below beat at least 95% of the competition in their respective peer groups, and all five ranked within the top quartile of their categories going back 10 years.

Fund/Index	Fund Information			Average Annual Total Returns as of 6/30/2016										Percent of Peers Beaten In Respective Morningstar Category as of 6/30/2016				
	Ticker	WT Fund Inception	Expense Ratio	NAV Returns					Market Price Returns					MorningStar Category	1-year	3-years	5-years	10-years
WisdomTree Total Dividend Fund	DTD	6/16/2006	0.28%	8.06%	11.36%	12.29%	7.19%	7.35%	7.86%	11.35%	12.27%	7.16%	7.32%	Large Value	90%	95%	95%	84%
WisdomTree Dividend Index				8.35%	11.67%	12.64%	7.60%	7.77%	8.35%	11.67%	12.64%	7.60%	7.77%					
Russell 3000 Value Index				2.42%	9.58%	11.09%	6.05%	6.27%	2.42%	9.58%	11.09%	6.05%	6.27%					
Russell 3000 Index				2.14%	11.13%	11.60%	7.40%	7.56%	2.14%	11.13%	11.60%	7.40%	7.56%					
WisdomTree LargeCap Dividend Fund	DLN	6/16/2006	0.28%	7.53%	11.04%	12.15%	6.95%	7.09%	7.42%	11.06%	12.12%	6.90%	7.06%	Large Value	90%	93%	95%	81%
WisdomTree LargeCap Dividend Index				7.88%	11.36%	12.47%	7.29%	7.44%	7.88%	11.36%	12.47%	7.29%	7.44%					
Russell 1000 Value Index				2.86%	9.87%	11.35%	6.13%	6.34%	2.86%	9.87%	11.35%	6.13%	6.34%					
S&P 500 Index				3.99%	11.66%	12.10%	7.42%	7.55%	3.99%	11.66%	12.10%	7.42%	7.55%					
WisdomTree MidCap Dividend Fund	DON	6/16/2006	0.38%	11.55%	13.97%	13.63%	8.99%	9.17%	11.51%	13.89%	13.60%	8.98%	9.21%	MidCap Value	99%	100%	99%	94%
WisdomTree MidCap Dividend Index				11.93%	14.33%	13.96%	9.03%	9.22%	11.93%	14.33%	13.96%	9.03%	9.22%					
Russell Midcap Value Index				3.25%	11.00%	11.70%	7.79%	8.01%	3.25%	11.00%	11.70%	7.79%	8.01%					
S&P MidCap 400 Index				1.33%	10.53%	10.55%	8.55%	8.87%	1.33%	10.53%	10.55%	8.55%	8.87%					
WisdomTree SmallCap Dividend Fund	DES	6/16/2006	0.38%	4.96%	10.13%	12.01%	7.05%	7.36%	4.86%	10.21%	11.99%	7.24%	7.36%	SmallCap Value	97%	95%	99%	82%
WisdomTree SmallCap Dividend Index				5.07%	10.22%	12.09%	7.12%	7.42%	5.07%	10.22%	12.09%	7.12%	7.42%					
Russell 2000 Value Index				-2.58%	6.36%	8.15%	5.15%	5.58%	-2.58%	6.36%	8.15%	5.15%	5.58%					
Russell 2000 Index				-6.73%	7.09%	8.35%	6.20%	6.65%	-6.73%	7.09%	8.35%	6.20%	6.65%					
WisdomTree High Dividend Fund	DHS	6/16/2006	0.38%	16.28%	12.52%	13.85%	6.71%	6.85%	16.28%	12.52%	13.83%	6.70%	6.85%	Large Value	99%	97%	99%	76%
WisdomTree High Dividend Index				16.79%	12.93%	14.28%	7.05%	7.19%	16.79%	12.93%	14.28%	7.05%	7.19%					
Russell 1000 Value Index				2.86%	9.87%	11.35%	6.13%	6.34%	2.86%	9.87%	11.35%	6.13%	6.34%					

Sources: WisdomTree, Bloomberg, Morningstar as of 6/30/16. Number of managers in each category: Large Value: 1,424 (1-year), 1,218 (3-year), 1,067 (5-year), 787 (10-year). MidCap Value: 491 (1-year), 423 (3-year), 360 (5-year), 248 (10-year). SmallCap Value: 454 (1-year), 389 (3-year), 351 (5-year), 224 (10-year).

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. Performance data for the most recent month-end is available at [www.wisdomtree.com](http://www.wisdomtree.com).

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Such impressive performance raises the question, “How is it possible for an index fund to beat 99% of its peer group over a five-year time frame?” First, investors should not assume that index funds are “average” just because they seek to measure the average return of an asset class. After fees, expenses and transaction costs, most actively managed mutual funds fail to outperform traditional [cap-weighted](#) equity benchmarks.<sup>1</sup> The [S&P MidCap 400 Index](#) for example?, beat 89% of mid-cap value managers over the 10 years ending June 30, 2016, according to Morningstar. Second, although cap-weighted indexes may be difficult for most active managers to surpass, [fundamentally weighted](#) indexes are developing a history of having much greater success. Put another way, if you wish to beat the indexes over time, you may simply need to work with a better index—not a better stock picker. WisdomTree believes that one potential way to beat the market over time is simply to own the dividend-paying portion of the market and weight companies based on the dividends they pay. In June 2006, WisdomTree unveiled the industry's first family of dividend-weighted ETFs covering most major equity markets around the world. The launch reflected WisdomTree's original vision that weighting equity markets by income, rather than by market capitalization, held out the potential to generate higher returns, often with lower [volatility](#), than traditional cap-weighted benchmarks. WisdomTree believed its fundamentally weighted approach could serve as a viable alternative to traditional cap-weighted indexes around the world. For the first time, investors could own the large-cap, mid-cap, or small-cap portion

of domestic or international equity markets, [rebalanced](#) annually and weighted by the dividends companies pay, rather than by their market value. By selecting companies based on their market capitalization, WisdomTree has created broad Indexes in each of the major size segments of the market, thus creating immense investment capacity for index funds that track them. This is important for investors interested in controlling for risks associated with the size of a company based on market capitalization. It also means that ETFs based on WisdomTree's Indexes can be used as tools in broader asset allocations, as they typically have exhibited high [correlations](#) to established cap-weighted benchmarks. After 10 years, we can see the real-time results of this approach. For example, DON was able to beat the S&P MidCap 400 Index and the [Russell Midcap Value Index](#) over the last year, three years, five years and ten years, simply by owning the mid-cap dividend-paying portion of the U.S. stock market and weighting those companies in proportion to the dividends they pay. Similarly, DES beat the [Russell 2000 Index](#) and the [Russell 2000 Value Index](#) over those same periods simply by owning dividend-paying small caps, dividend weighted. **Conclusion** When one examines which funds occupy the top 1% of Wall Street's league tables, the conclusion may seem counterintuitive. For the past five years, index funds, specifically ETFs that track WisdomTree's proprietary stock Indexes, have soared to the top of that list. This reflects the power of indexing, the power of rebalancing portfolios annually based on relative value and the enduring power of dividends. <sup>1</sup>Source: <https://us.spindices.com/search/?ContentType=SPIVA>

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You cannot invest directly in an index.

## DEFINITIONS

**Actively managed ETFs** : Investment strategy where a manager selects securities in an attempt to outperform the performance benchmark.

**Dividend weighted** : Constituent securities represented within the Index in proportion to their contribution to the dividend stream of the Index.

**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 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.

**Fundamental weighting** : A type of equity index in which components are chosen based on fundamental criteria as opposed to market capitalization. Fundamentally weighted indexes may be based on fundamental metrics such as revenue, dividend rates, earnings or book value.

**Volatility** : A measure of the dispersion of actual returns around a particular average level.&nbsp;.

**Rebalance** : An index is created by applying a certain set of selection and weighting rules at a certain frequency. WisdomTree rebalances, or re-applies its rules based selection and weighting process on an annual basis.

**Correlation** : Statistical measure of how two sets of returns move in relation to each other. Correlation coefficients range from -1 to 1. A correlation of 1 means the two subjects of analysis move in lockstep with each other. A correlation of -1 means the two subjects of analysis have moved in exactly the opposite direction.

**Russell MidCap Value Index** : measures the performance of the mid-cap value segment of the U.S. equity universe. It includes those Russell Midcap Index companies with lower price-to-book ratios and lower forecasted growth values.

**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.

**Russell 2000 Value Index** : measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 Index companies with lower price-to-book ratios and lower forecasted growth values.