HOW TO MANAGE RISK IN CHINA'S EQUITY MARKET

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09/19/2012

China has been one of the most sought-after destinations of emerging market investments over the past decade. But today, many people are questioning whether China is still a great investment. They point to slowing growth as a potential reason to avoid China. I believe these naysayers are missing the forest for the trees. China is currently: • Home to the largest population on earth[1] • Expected to continue outpacing developed (and most emerging) markets for some time[1] • The largest contributor to global growth[2] And there are many other reasons to consider China for your emerging market dollars. The biggest challenge I can see for investors is that popular indexes such as MSCI China and FTSE China 25—and the investments that mirror them—are heavily over-weighted to the financial sector. Yes, Chinese financials are currently cheap,[3] but I'm not convinced this warrants adding concentration risk in an emerging market. It is hard for me to imagine that investors want to put 40%–50% (or more) of their investment into any single emerging market sector, no matter how cheap it is. I think in the current environment, investors might be better served by investing in China but mitigating the risk of being concentrated in one sector. In my opinion, this can help investors increase their diversification, reduce their risk and mitigate volatility—and may also enhance their returns. The WisdomTree China Dividend ex-Financials Fund (CHXF) may enable investors to capitalize on the growth potential of China without exposure to the financial sector. *Read the whole commentary to learn more about why now may be a good time for investing in China.* [1]CIA World Factbook, 2012. [2]IMF World Economic Outlook, April 2012. [3]Bloomberg. As of 8/31/2012 the MSCI China Financials Sector Index has a high trailing 12-month dividend yield and low P/E ratio relative to other MSCI China Sector Indexes.

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