

ETFs CAN SHINE IN TIMES OF CRISIS

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Will [active managers](#) shine in 2020? I doubt it.

It has been a while since we experienced extended and serious [volatility](#) in the market, especially anything close to what's happening now.

2020 will be remembered in the record books as a year with some of the wildest and worst daily declines in history. Will this be the year that active mutual fund managers finally earn their fees?

The [SPIVA Scorecard](#), produced by Standard & Poor's, looks at how active mutual fund managers perform versus [passive](#) index funds, and is one of the best resources I track for this type of analysis.

The 2008 [bear market](#) was the last big calendar-year decline. Here are a few summary quotes from the 2009 Scorecard to see if volatility helped mutual funds¹:

- "The belief that bear markets favor active management is a myth. A majority of active funds in eight of the nine domestic equity [style boxes](#) were outperformed by indices in the negative markets of 2008. The bear market of 2000 to 2002 showed similar outcomes."
- "Over the five-year market cycle from 2004 to 2008, the [S&P 500](#) outperformed 71.9% of actively managed [large cap](#) funds, the [S&P MidCap 400](#) outperformed 79.1% of [mid cap](#) funds and the [S&P SmallCap 600](#) outperformed 85.5% of [small cap](#) funds. These results are similar to that of the previous five-year cycle from 1999 to 2003."
- "The script was similar for non-U.S. equity funds, with indices outperforming a majority of actively managed non-U.S. equity funds over the past five years."

[Investors tend to embrace exchange-traded funds \(ETFs\) during market drawdowns](#) because they are typically an efficient exposure for putting capital back to work.

Since investors were freed from the [embedded capital gains](#) that kept them locked into legacy mutual fund positions, they have tended to move with greater speed toward ETFs.

ETFs are also not just being used for tracking the market and most indexes.

Our [Modern Alpha®](#) ETFs incorporate a disciplined investment strategy to add value versus traditional beta-oriented instruments.

WisdomTree has a number of 4- and 5-star Funds, according to Morningstar, that are adding value over a large majority of their peers.

Figure 1: Morningstar Information

Fund Information (as of 3/31/20)				Percentile Rank (Lower is better)				
Fund	Ticker	Rating	Morningstar Category	YTD	1-Year	3-Year	5-Year	10-Year
WisdomTree US Quality Dividend Growth Fund	DGRW	★★★★	Large Blend	26	35	14	8	--
WisdomTree U.S. LargeCap Dividend Fund	DLN	★★★★★	Large Value	19	11	7	4	1
WisdomTree International Hedged Dividend Growth Fund	IHDG	★★★★	Foreign Large Growth	12	9	28	13	--
WisdomTree Emerging Markets ex-State-Owned Enterprises Fund	XSOE	★★★★	Diversified Emerging Mkts	16	16	13	15	--

Source: Morningstar, as of 3/31/20. Past performance is not indicative of future results. Subject to change. Performance is historical and does not guarantee future results.

Number of funds in U.S. Large Blend category: 1,265 (YTD), 1,229 (1-Year), 1,127 (3-Year), 982 (5-Year). Number of funds in U.S. Large Value category: 1,112 (YTD), 1,077 (1-Year), 1,000 (3-Year), 866 (5-Year), 649 (10-Year). Number of funds in Foreign Large Growth category: 467 (YTD), 432 (1-Year), 386 (3-Year), 322 (5-Year). Number of funds in Diversified Emerging Markets category: 763 (YTD), 740 (1-Year), 643 (3-Year), 528 (5-Year).

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For each fund with at least a 3-year history, Morningstar calculates a Morningstar Rating™ metric each month by subtracting the return on a 90-day U.S. Treasury Bill from the fund's load-adjusted return for the same period, and then adjusting this excess return for risk. The top 10% of the funds in each broad asset class receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. The Overall Morningstar Rating™ for a fund is derived from a weighted average of the performance figures associated with its 3-, 5- and 10-year (if applicable) Morningstar Rating™ metrics.

For standardized performance of the Funds mentioned below, please click their respective tickers: [DGRW](#), [DLN](#), [IHDG](#), [XSOE](#).

U.S. Large Cap Value

The [WisdomTree U.S. LargeCap Dividend Fund \(DLN\)](#) was launched in June 2006. Value as an investment style has struggled ever since WisdomTree launched in 2006. The roots of [dividend-weighting](#) fall in the underlying cash flows that companies are returning to shareholders and is most value-tilted in the U.S., where the most [growth](#)-oriented companies do not pay dividends. DLN has been a top-quartile fund in the U.S. Large Value category in 2020 and top-decile fund going back 5 and 10 years.

Figure 2: DLN Performance

Performance as of 3/31/2020										
				Cumulative Performance as of 3/31/2020			Average Annual Performance as of 3/31/2020			
Fund	Ticker	Inception Date	Net Expense Ratio (%)	1-Month	3-Month	YTD	1-Year	3-Year	5-Year	10-Year
WisdomTree U.S. LargeCap Dividend Fund (NAV)	DLN	6/16/06	0.28%	-13.73%	-23.03%	-23.03%	-11.62%	1.91%	4.84%	9.61%
WisdomTree U.S. LargeCap Dividend Fund (MP)				-13.84%	-23.03%	-23.03%	-11.64%	1.91%	4.83%	9.59%
Russell 1000 Value Index	--	--	--	-17.09%	-26.73%	-26.73%	-17.19%	-2.19%	1.89%	7.66%

Sources: WisdomTree, Bloomberg. You cannot invest directly 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. Performance data for the most recent month-end is available at [wisdomtree.com](#).

WisdomTree shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Total returns are calculated using the daily 4:00 p.m. ET net asset value (NAV). Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where Fund shares are listed. Market price returns do not represent the returns you would receive if you traded shares at other times.

U.S. Large Cap Blend

The [WisdomTree U.S. Quality Dividend Growth Fund \(DGRW\)](#) was launched in May 2013. This fund screens for [growth](#) and [quality](#) measures from the total dividend universe and takes the top 300 companies with the best rank of growth quality variables. In another year where growth, as an investment style, is dominating, this has been one of best performing dividend funds in the market. It serves the role of a core portfolio position in terms of style boxes, as this growth-oriented selection approach is selling at "value-like" prices and [valuation](#) metrics.

Figure 3: DGRW Performance

Performance as of 3/31/2020										
Fund	Ticker	Inception Date	Net Expense Ratio (%)	Cumulative Performance as of 3/31/2020			Average Annual Performance as of 3/31/2020			
				1-Month	3-Month	YTD	1-Year	3-Year	5-Year	10-Year
WisdomTree U.S. Quality Dividend Growth Fund (NAV)	DGRW	5/22/13	0.28%	-10.58%	-19.41%	-19.41%	-7.51%	5.42%	6.80%	--
WisdomTree U.S. Quality Dividend Growth Fund (MP)				-10.43%	-19.29%	-19.29%	-7.42%	5.44%	6.79%	--
S&P 500 Index	--	--	--	-12.35%	-19.60%	-19.60%	-6.98%	5.10%	6.73%	10.53%

Sources: WisdomTree, Bloomberg. Past performance is not indicative of future results. You cannot invest directly in an index.

The [WisdomTree International Hedged Quality Dividend Growth Fund \(IHDG\)](#) was launched in May 2014 and follows a similar process as DGRW, but in the developed international world. Because more companies pay dividends in the developed universe, this fund has more growth characteristics than its U.S. counterpart. In 2020, this fund has been a top-decile performer in the Foreign Large Growth category. In addition to its stock investment methodology, it employs [currency hedges](#) to neutralize foreign exchange movement relative to the U.S. dollar. It has outperformed its unhedged counterpart ([WisdomTree International Quality Dividend Growth Fund, or IQDG](#)) by about 300 basis points (bps) in the first three months of 2020. I continue to advocate that currency adds expected risk but not reward, and that we believe more people should hedge their international investments.

In emerging markets, we also have the [WisdomTree Emerging Markets ex-State-Owned Enterprises Fund \(XSOE\)](#). We believe one of most important factors in emerging markets is state involvement in company direction through significant ownership stakes, and those businesses tend to be mostly present in the energy and banking industries. Removing [state-owned enterprises](#) from our universe results in a core emerging markets fund tilted to growth exposures. This has helped this Fund provide attractive relative returns over the 5-years plus since inception.

Figure 4: IHDG & XSOE Performance

Performance as of 3/31/2020										
Fund	Ticker	Inception Date	Net Expense Ratio (%)	Cumulative Performance as of 3/31/2020			Average Annual Performance as of 3/31/2020			
				1-Month	3-Month	YTD	1-Year	3-Year	5-Year	10-Year
WisdomTree International Hedged Quality Dividend Growth Fund (NAV)	IHDG	5/7/14	0.58%	-8.07%	-15.40%	-15.40%	-2.68%	3.61%	4.36%	--
WisdomTree International Hedged Quality Dividend Growth Fund (MP)				-9.19%	-16.54%	-16.54%	-3.95%	3.17%	4.09%	--
MSCI EAFE Index (USD)	--	--	--	-13.35%	-22.83%	-22.83%	-14.38%	-1.82%	-0.62%	2.72%

Performance as of 3/31/2020										
Fund	Ticker	Inception Date	Net Expense Ratio (%)	Cumulative Performance as of 3/31/2020			Average Annual Performance as of 3/31/2020			
				1-Month	3-Month	YTD	1-Year	3-Year	5-Year	10-Year
WisdomTree Emerging Markets ex-State-Owned Enterprises Fund (NAV)	XSOE	12/10/14	0.32%	-14.78%	-21.34%	-21.34%	-13.38%	1.03%	1.22%	--
WisdomTree Emerging Markets ex-State-Owned Enterprises Fund (MP)				-15.69%	-21.71%	-21.71%	-13.42%	0.51%	1.28%	--
MSCI Emerging Markets Index	--	--	--	-15.40%	-23.60%	-23.60%	-17.69%	-1.62%	-0.37%	0.68%

Sources: WisdomTree, Bloomberg. Past performance is not indicative of future results. You cannot invest directly in an index.

ETFs as a Potential Solution in Times of Crisis

While there will always be some active mutual fund managers that can earn above-average returns, WisdomTree believes now is a good time to explore how our ETFs can upgrade some of your positions.

¹<https://us.spindices.com/documents/spiva/spiva-us-year-end-2008.pdf>

Important Risks Related to this Article

There are risks associated with investing, including the possible loss of principal. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. Investments in emerging or offshore markets are generally less liquid and less efficient than investments in developed markets and are subject to additional risks, such as risks of adverse governmental regulation and intervention or political developments. Funds focusing their investments on certain sectors and/or regions increase their vulnerability to any single economic or regulatory development. This may result in greater share price volatility. These Funds invest in the securities included in, or

representative of, their Indexes regardless of their investment merit and these Funds do not attempt to outperform their Indexes or take defensive positions in declining markets.

To the extent that a Fund invests a significant portion of its assets in the securities of companies of a single country or region, it is likely to be impacted by the events or conditions affecting that country or region. Dividends are not guaranteed and a company currently paying dividends may cease paying dividends at any time. Derivative investments can be volatile and may be less liquid than other securities, and more sensitive to the effect of varied economic conditions. IHDG can have a high concentration in some issuers can be adversely impacted by changes affecting those issuers. Due to the investment strategy of IHDG, it may make higher capital gain distributions than other ETFs.

Please read each Funds' prospectus for specific details regarding the Fund's risk profile.

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.

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You cannot invest directly in an index.

DEFINITIONS

Active manager : Portfolio managers who run funds that attempt to outperform the market by selecting those securities they believe to be the best.

Volatility : A measure of the dispersion of actual returns around a particular average level. .

S&P Indices Versus Active (SPIVA®) : Measures the performance of actively managed funds against their relevant S&P index benchmarks.

Passive : Indexes that take a rules-based approach with regular rebalancing schedules that are not changed due to market conditions.

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

Style : Morningstar defines its style box along two axes—large, mid-cap and small, as well as value, blend and growth. If two strategies are in the same style box, it does not mean that they hold the exact same portfolios, but it means that it might be harder to generate significantly different returns, as compared to strategies in different style boxes.

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.

Large-Capitalization (Large-Cap) : A term used by the investment community to refer to companies with a market capitalization value of more than \$10 billion. Large cap is an abbreviation of the term "large market capitalization". Market capitalization is calculated by multiplying the number of a company's shares outstanding by its stock price per share.

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.

Mid-Cap : Characterized by exposure to the next 20% of market capitalization (after the top 70% have been removed) within the Value, Blend or Growth style zones with the majority of the fund's weight.

S&P SmallCap 600 Index : Market capitalization-weighted measure of the performance of small cap equities within the United States, with constituents required to demonstrate profitability prior to gaining initial inclusion.

Small caps : new or relatively young companies that typically have a market capitalization between \$200 million to \$2 billion.

Modern Alpha : Modern Alpha® combines the outperformance potential of active with the benefits of passive—to offer investor strategies that are built for performance.

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 time.

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

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.

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.

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.

Currency hedging : Strategies designed to mitigate the impact of currency performance on investment returns.

State-owned enterprise : Companies in which governments have a significant ownership stake and the potential to influence the firms' actions over time.