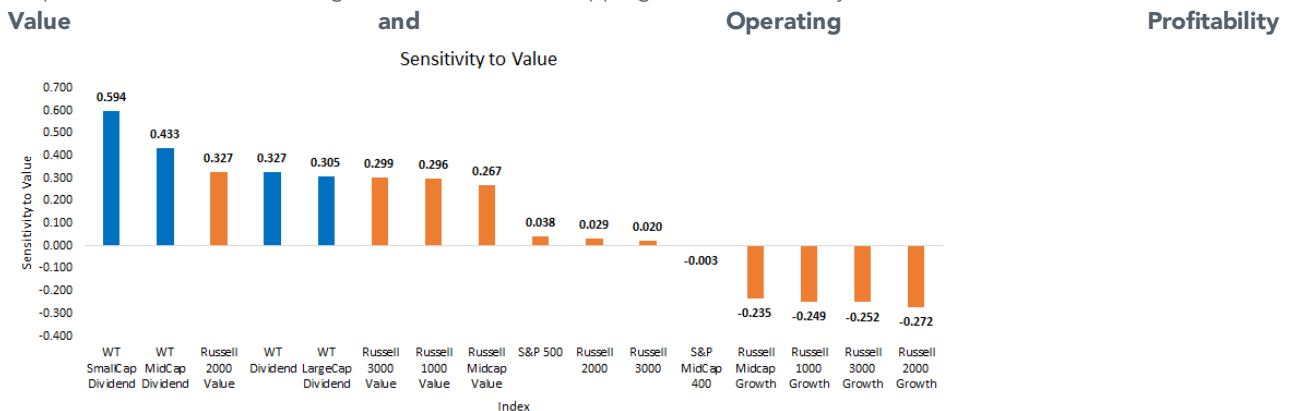
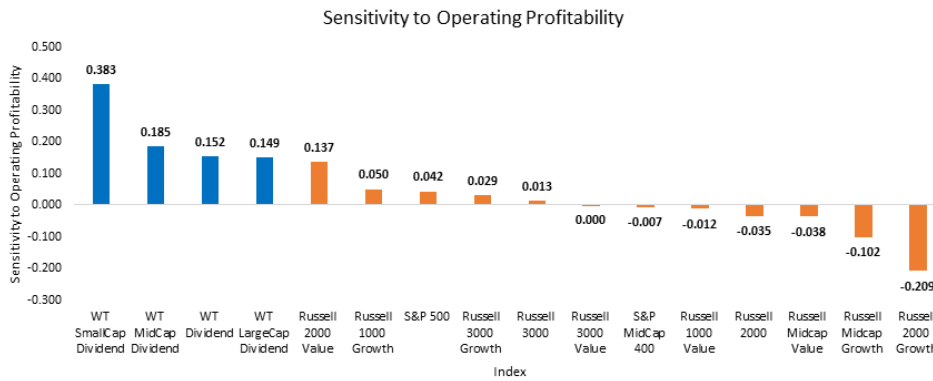


# GROWTH BEATS VALUE, BUT DIVIDENDS OUTPERFORM

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There has been much discussion of late about factor investing. Now, it's important to recognize that this is not a new discussion—Professors Eugene Fama and Kenneth French wrote a seminal work on the subject all the way back in the early 1990s.<sup>1</sup> **WisdomTree Reaches 10 Years of History with Its First Indexes** Our initial U.S. [dividend](#) Indexes have now been around for more than 10 years, calculated in real time. Ten years is a period of focus when judging the efficacy of investment strategies. This 10-year period has led to a stunning result: In a period where the [growth](#) style outperformed the [value](#) style, WisdomTree's dividend Indexes tended to keep close pace or in some cases outperform core, [market capitalization-weighted](#) benchmarks. • **Broad Market:** For its first 10 years, the [WisdomTree Dividend Index](#) delivered a 7.45% average annual return, 6 [basis points](#) ahead of the [Russell 3000 Index](#). The [Russell 3000 Growth Index](#) returned 8.65% per year, whereas the [Russell 3000 Value Index](#) returned 6.03% per year. • **Large Cap:** Over the same period, the [WisdomTree LargeCap Dividend Index](#) returned 7.14% per year, while the [S&P 500 Index](#) returned 7.41%. The [Russell 1000 Value Index](#) was up 6.11%, whereas the [Russell 1000 Growth Index](#) was up 8.78% per year. • **Mid-Cap:** In the mid-cap size segment, the [WisdomTree MidCap Dividend Index](#) was up 8.92% per year. This was ahead of the [S&P MidCap 400](#), [Russell MidCap Value](#) and [Russell Midcap Growth indexes](#). • **Small Cap:** The [WisdomTree SmallCap Dividend Index](#) was up 7.00% per year, beating the [Russell 2000 Index](#) and the [Russell 2000 Value Index](#) and only trailing the [Russell 2000 Growth Index](#) by 20 basis points per year during a period of significant outperformance for the growth style. **Bottom line:** Within the broad-market, mid-cap and small-cap size segments, the WisdomTree U.S. Dividend Indexes beat the relevant core and value benchmarks over the past 10 years. Across all size segments, growth outperformed value. What might these Indexes be tapping into, if not solely value? **Dividends: More Sensitive to**





Sources: WisdomTree, Kenneth French Data Library, Bloomberg, with data from 6/1/06 to 3/31/16, due to data availability. You cannot invest directly in an index.

• **Dividend Strategies Tilt**

**toward Value:** This point is congruent with intuition, as in the United States equity markets many growth companies—especially in mid- and small caps—do not pay regular cash dividends. The WisdomTree SmallCap and MidCap Dividend Indexes were clearly two of the strategies most heavily tilted toward value over this period.

• **Dividend Strategies Tilt**

**toward Operating Profitability:** What's more interesting is that over the same period, the WisdomTree Dividend Indexes shown all tilted more toward operating profitability than all of the other market capitalization-weighted benchmarks shown. This is a remarkable result, in our opinion, in that it clearly shows that, over this period, focusing on dividends and [rebalancing](#) back toward the [Dividend Stream®](#) in a disciplined manner did more than simply capture sensitivity to value. **Our Dividend Strategies Captured More Than Just Value Sensitivity** We wrote in a prior blog post that [“value” was not a great tilt to have over the most recent rolling 10-year period](#), delivering some of its worst performance seen compared to stocks tilted in the opposite direction, having much lower book-to-market value ratios. Knowing that, it makes the live performance record of the WisdomTree strategies all the more remarkable for these first 10 years of history. <sup>1</sup>Eugene F. Fama & Kenneth R. French, “The Cross-Section of Expected Stock Returns,” The Journal of Finance, Volume XLVII, No. 2, June 1992.

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.

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You cannot invest directly in an index.

## DEFINITIONS

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

**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.

**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.

**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.

**Basis point** : 1/100th of 1 percent.

**Russell 3000 Index** : Measures the performance of the 3,000 largest U.S. companies based on total market capitalization.

**Russell 3000 Growth Index** : Measures the performance of the Russell 3000 Index constituents with growth characteristics.

**Russell 3000 Value Index** : Measures the performance of the Russell 3000 Index constituents with value characteristics.

**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.

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

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

**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.

**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 Midcap Growth Index** : Measures the performance of the mid-cap growth segment of the U.S. equity universe. It includes those Russell Midcap Index companies with higher price-to-book ratios and higher 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.

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

**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.

**Dividend Stream** : Refers to the regular dividends per share multiplied by the number of shares outstanding.