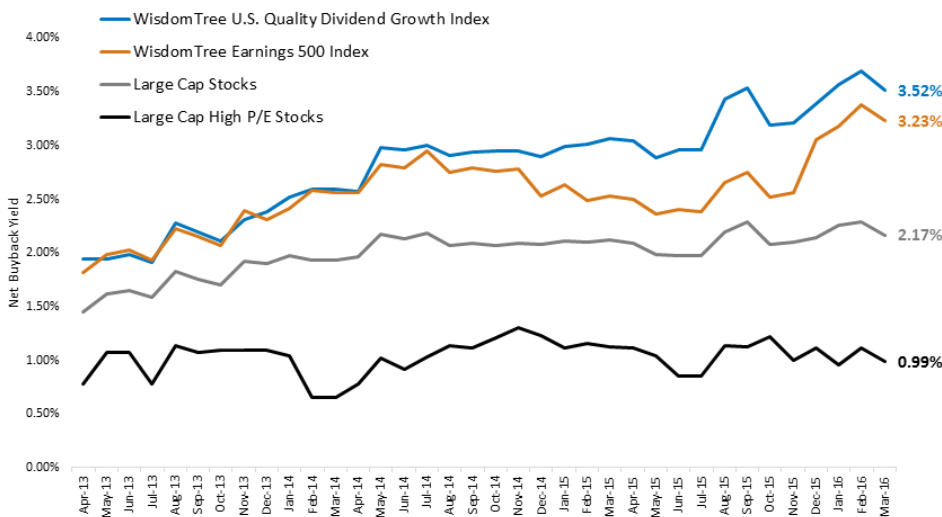


INCREASING NET BUYBACKS WITH A QUALITY APPROACH

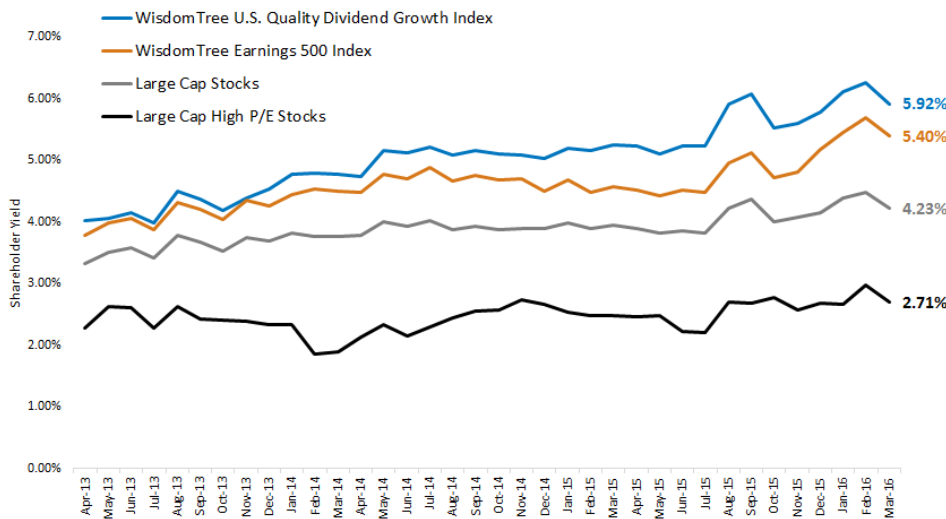
Jeremy Schwartz — Global Chief Investment Officer
05/26/2016

“The market¹ looks expensive” is a common refrain we hear today. Sure, after a seven-year bull, the U.S. market as a whole looks more expensive. Yet some prognosticators say we can get as low as zero real returns from the U.S. markets over the coming years. This is too pessimistic in my view, and I will point to the part of the market that looks most attractive to me from a return expectation standpoint. Professor Jeremy Siegel, in his book *Stocks for the Long Run*, showed that the long-term average real (after-inflation) return on stocks approximated 6.5% over many periods. Based on the [dividend yield](#) and [net buyback yields](#), I see our [Quality Dividend Growth Index](#) of stocks offering [valuations](#) supportive of returns a tad lower than Siegel’s long-term research. The summation of current dividend yield and net buyback yields can be viewed as an important indicator for long-term return potential. The reason: An investor does not need to assume there is any real growth on top of those two sources of returns. **Net Buyback Yields**



Sources: WisdomTree, FactSet, 4/30/13–3/31/16. Start date was chosen based on first month-end after inception date of the WisdomTree U.S. Quality Dividend Growth Index (4/12/13). Large-cap stocks represent the largest 500 U.S.-listed and -domiciled securities by market cap, weighted by market cap and reconstituted monthly. Large-cap, high-P/E stocks represent the highest 50% of stocks by P/E ratios from the large-cap universe defined above. Past performance is not indicative of future results. You cannot invest directly in an index. Net buyback yield does not measure dividends or investment returns from stocks and is not intended to represent the past or future performance of any particular index or investment product. Historical results do not guarantee future results.

Dividend Yield Plus Net Shareholder Buyback Yields: Yield



Sources: WisdomTree, FactSet, 4/30/13–3/31/16. Start date was chosen based on first month-end after inception date of the WisdomTree U.S. Quality Dividend Growth Index (4/12/13). Large-cap stocks represent the largest 500 U.S.-listed and -domiciled securities by market cap, weighted by market cap and reconstituted monthly. Large-cap, high-P/E stocks represent the highest 50% of stocks by P/E ratios from the large-cap universe defined above. Past performance is not indicative of future results. You cannot invest directly in an index. Net buyback yield does not measure dividends or investment returns from stocks and is not intended to represent the past or future performance of any particular index or investment product. Historical results do not guarantee future results.

Current Comparisons In a blog post titled [“Why Dividends and Buybacks Matter to Investors”](#), we showed how the [WisdomTree U.S. Quality Dividend Growth Index](#) and the [WisdomTree Dividend ex-Financials Index](#) had a combined dividend and net buyback yield close to 6%.² These were the two highest combined dividend and net buyback yields of our various U.S. Indexes, and we believe they are two of the most attractively priced segments of the U.S. markets from a pure valuation standpoint (measured solely on this dividend and net buyback indicator). A few interesting benchmarks: The [S&P 500 Index](#) had a combined dividend and net buyback yield of 4.36%.³ When we look at the large-cap universe of stocks over the last 15 years, it has averaged a combined dividend and net buyback yield of 3.1%.⁴ Although the summation of the current dividend yield and net buyback yields for the above are lower than Siegel’s constant of 6.5%, current readings don’t look expensive compared to the recent 15-year history. Assuming no growth and no change in valuations going forward, an investor could expect to earn the combined dividend and net buyback yield, currently higher than the zero some prognosticators are predicting.

¹Market refers to the [S&P 500 Index](#). ²Source: WisdomTree, as of 3/17/16. ³Sources: WisdomTree, FactSet, Standard & Poor’s, as of 3/31/16. ⁴Sources: WisdomTree, FactSet, 3/31/01–3/31/16.

Important Risks Related to this Article

Dividends are not guaranteed, and a company’s future ability to pay dividends may be limited. A company currently paying dividends may cease paying dividends at any time.

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](#).

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You cannot invest directly in an index.

DEFINITIONS

Bullish : a position that benefits when asset prices rise.

Inflation : Characterized by rising price levels.

Dividend yield : A financial ratio that shows how much a company pays out in dividends each year relative to its share price.

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.

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.

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.