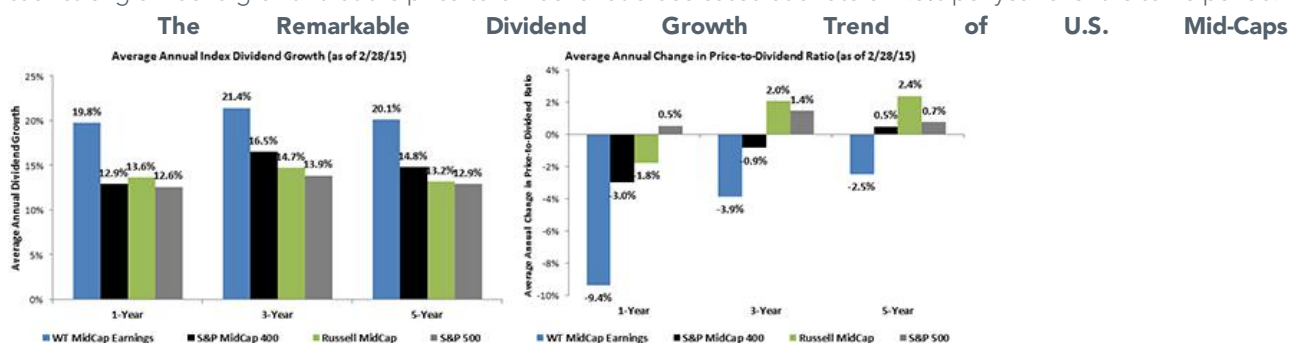


HOW THIS MID CAP INDEX BECAME LESS PRICEY DESPITE STRONG GAINS

Christopher Gannatti — Global Head of Research
04/01/2015

The [S&P 500 Index](#) has had a strong 16.2% average annual return for the past five years,¹ making it a very difficult index to beat. However, it is worth noting that broad measures of U.S. mid-cap equities have actually performed even better over the same period²: • [WisdomTree MidCap Earnings Index](#)³: 18.8% per year. • [S&P MidCap 400 Index](#)⁴: 17.0% per year. • [Russell Midcap Index](#)⁵: 17.7% per year. Now, with such great performance comes the inevitable question: Are U.S. stocks becoming expensive? **If Fundamentals Are Growing, Value Is Easier to Find** The typical way to answer this question is to cite [price-to-earnings \(P/E\) ratios](#) and examine the relationship between share price and [earnings per share](#). However, there are many [fundamental](#) metrics that can be used to look at [valuation](#). One that we focus on often is [dividends](#). **Dividend Growth since the Global Financial Crisis Has Been Exceptional** At WisdomTree, we spend a lot of time looking at dividend trends around the world, and one of the first things we point out to people when talking about U.S. markets is that even though the performance has been strong, the dividend growth has been stronger. Putting the above-average share price performance into context, we can therefore tie it back to above-average [dividend growth](#).

Dividend Growth and the Price-to-Dividend Ratio The price-to-dividend ratio is no different than the price-to-earnings ratio—it simply looks at share price relative to dividends instead of looking at share price relative to earnings. In both ratios, if the underlying fundamental is increasing faster than the price levels, the ratio will become less expensive. **Bottom Line:** Even with an 18.8% return over the past five years, the WisdomTree MidCap Earnings Index actually saw such strong dividend growth that the price-to-dividend ratio decreased at a rate of 2.5% per year over the same period.⁶



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

• WT MidCap Earnings

Index Growing Dividends at 20% per Year: This is the classic case of an index where the returns have been strong, but the dividend growth has been stronger. The result? The price-to-dividend ratio actually decreased over the past one-, three- and five-year periods. • **Mid-Cap Dividend Growth Outpaces S&P 500 Dividend Growth:** Each of the mid-cap indexes shown had dividend growth faster than that of the S&P 500 Index over the past one-, three- and five-year periods. [Large-cap](#) and [small-cap](#) equities certainly get significant attention, but the strong levels of dividend growth are one reason we think mid-caps can also be exciting. **Follow the Fundamentals** The WisdomTree MidCap Earnings Index takes an approach that emphasizes following the fundamentals, as every constituent must prove its profitability at each [annual Index screening](#). While the Index doesn't require every constituent to be a dividend payer, the dividend growth that it has displayed over its performance history has been impressive.

¹Source: Bloomberg, for five-year period ending 2/28/15. ²Source for all bullets: Bloomberg, for five-year period ending 2/28/15. ³WisdomTree MidCap Earnings Index standardized average annual returns as of 2/28/15: one-year return: 10.2%; three-year return: 18.4%; since-

inception return: 10.5%. Inception date: 2/1/07. ⁴S&P MidCap 400 Index standardized average annual returns as of 2/28/15: one-year return: 11.1%; three-year return: 17.2%; since WT MidCap Earnings Index inception return: 9.2%. ⁵Russell Midcap Index standardized average annual returns as of 2/28/15: one-year return: 13.3%; three-year return: 18.9%; since WT MidCap Earnings Index inception return: 8.5%. ⁶Source: Bloomberg, for five-year period ending 2/28/15.

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.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.

You cannot invest directly in an index.

DEFINITIONS

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.

WisdomTree MidCap Earnings Index : Fundamentally-weighted index that measures the performance of the top 75% of the market capitalization of the WisdomTree Earnings Index after the 500 largest companies have been removed.

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 Index : The Russell Midcap 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.

Earnings per share : Total earnings divided by the number of shares outstanding. Measured as a percentage change as of the annual Index screening date compared to the prior 12 months. Higher values indicate greater growth orientation.

Fundamental value : The value of a firm that is related to a company's actual operations and production as opposed to changes in share price.

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.

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

Dividend growth : The growth in trailing 12-month dividends for the specified universe.

Price-to-dividend ratio : Refers to the index price divided by the trailing 12-month dividends.

Large-cap Value : Refers to companies with a market capitalization value of more than \$10 billion, 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

Small-cap premium : The academic concept that small-cap stocks have tended to outperform large-cap stocks over time.

Annual screening date : The screening date refers to the date upon which characteristics of eligible constituent firms are measured, whereas the rebalance refers to when the results from the screening date are implemented by way of Index weights and constituents.