Is the Recent Yen Spike Temporary or Indicative of a Longer-Term Reversal?

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JAPAN CURRENCY IN FOCUS AS BANK OF JAPAN ACTS AGAIN

The Bank of Japan (BOJ) recently announced new monetary policy goals that established an inflation target of 1% in its battle to end deflation[1] and stimulate economic growth. The BOJ has been facing an intractable battle to counteract the Japanese economy's deflationary tendencies, which have contributed to a strengthening yen and a challenging operating market for Japan's exporting powerhouses. The latest measures, announced on February 14, 2012, caused a temporary spike downward in the yen. But is this spike indicative of a new long-term direction or just another temporary movement? We evaluate the competing sides of the yen debate and discuss portfolio solutions for each side below.

KEY CONSIDERATIONS FOR THE YEN

+ **Yen Bears:** Those who, like Jim O'Neill, Chairman of Goldman Sachs Asset Management, believe the yen must weaken significantly.His call is for an exchange rate of 100 yen to 1 U.S. dollar[2]. From the current levels of 80 yen/U.S. dollar, this would be a 25% depreciation[3]. O'Neill cites a shift in policy to the adoption of the 1% inflation target as a catalyst; that's not to mention the three D's—debt, deficits and demographics. O'Neill quipped, "I recently asked a major investor if he finds Italian bonds at seven percent or Japan bonds at one per cent more attractive. Italy has debt to Gross Domestic Product (GDP)[4] ratio of 120 percent, while Japan's is more than 200 percent. He couldn't answer me… the yen needs to weaken, which it will do as soon as markets realize America isn't going down Japan's path."[5]
+ **Yen Bulls:** Japan has been somewhat a "land of the setting sun" for the past decade, exemplifying deteriorating debt, deficit and demographic fundamentals. Yet, on balance, the yen has still appreciated 71.19% cumulatively from 12/31/2001 to 12/31/2011 vs. the U.S. dollar.[6] Japan has experienced significant deflation, which supports strength in its currency related to the concept of purchasing power parity[7]. Despite the fact that in 2011 Japan posted its first annual trade deficit[8] since 1980, analysts at the French bank BNP Paribas expect current account surpluses[9] to return in the future, thereby providing a supportive factor for yen demand. Specifically, BNP forecasts that the yen will be at about 72 to the U.S. dollar by the end of 2012.[10] Perhaps most relevant to its recent performance, the yen also has found a place in traders' portfolios as a "risk-off" asset that tends to attract "safe-haven" flows during periods of heightened volatility.

1 Deflation: Environment of falling prices where a unit of currency increases in purchasing power over time.
2 Source: "Goldman's O'Neill: Confident in Bearish Yen Trade After BOJ." The Wall Street Journal. February 14, 2012.
3 Depreciation: Decline in value of one currency relative to another.
4 Gross domestic product (GDP): Value of all goods and services produced in an economy.
5 Source: Jim O'Neill, "America is not heading down Japan's route." November 16, 2011
6 Source: Bloomberg.
7 Purchasing power parity: Academic concept for the movement of exchange rates based on the idea that the same products should cost the same amounts in different countries after adjusting for exchange rates for the different currencies. Meant as an approximation rather than an exact rule to show what currencies might be over- or undervalued on this basis, here shown relative to the U.S. dollar.
8 Trade deficit: Occurs when a country imports more than it exports.
9 Current account surpluses: Occurs when a country exports more goods and services than it imports.
10 Source: Matthew Walter, "Japan's Easing May Not Hold the Yen Back." The Wall Street Journal. February 16, 2012.

Depending on one's side in this debate, there are vastly different implications for how we think it is best to structure potential portfolio exposure to either Japanese equities or to the yen.

Specifically, if one believes in the bearish yen case, we believe a significantly weakening yen would be a catalyst to lift the depressed valuations of Japanese equities (the dividend yield on Japanese equities is higher than long-term bonds, and the price-to-book ratios[11] are trading near their lowest levels in 30 years[12]). But we believe a weakening yen implies a need to hedge[13] the currency exposure for U.S. investors.

On the other side, if one believes the recent BOJ actions are only causing a temporary spike down in the yen and the yen will soon reach new record highs, direct exposure to its currency is likely to be preferred compared to investments in Japan equities that also provide exposure to its currency.

YEN BEARS AND THE CASE FOR JAPAN EQUITIES WITH CURRENCY HEDGE

Lately, Japanese firms have faced a very difficult operating environment. In the past few weeks Nintendo, Toshiba and Sony all were forced to slash profit forecasts for the coming year. There is no question that floods in Thailand, slowing demand and uncertainty in Europe, and hangovers from the March 2011 earthquake tsunami disaster all have played a role, but there is another, more constant headwind that these large exporters have had to contend with over time—the strengthening yen.

Just how impactful is a strong yen on a Japanese exporter? Toyota has incorporated the impact of an expected 190 billion yen loss due to a strong yen in its most recent forecasts, and its August forecast of operating profit was trimmed from 450 billion yen to about 200 billion yen[14]. Clearly, this is a significant hit.

Japanese exports were valued at about $800 billion in 2011, a level that ranks it as the 5th largest exporter in the world, with exports accounting for about 14% of total GDP.[15]

A declining yen would help support these exporters and reverse the revenue declines they have experienced recently with the yen's seemingly constant strength relative to other developed market currencies such as the U.S. dollar. In fact, we will show later in this piece (in figure 2) that the WisdomTree Dreyfus Japanese Yen Fund (JYF) has exhibited a correlation coefficient[16] of -0.43 relative to the MSCI Japan Local Currency Index from 6/1/2008 to 1/1/2012,[17] meaning that Japan's local equity markets and its currency have tended to move in almost opposite directions over this period. Worthy of additional note is the fact that, as of 1/31/2012, the MSCI Japan Index had a price-to-book ratio of 0.98, lower than that of the S&P 500 Index and the MSCI Europe Index.[18] If the yen is in fact beginning a longer-term depreciation, the hedged[19] Japanese equity investor might be helped in potentially two ways: (1) entering at the relatively low price-to-book valuation, and (2) the potential tendency for locally denominated Japanese equities to perform positively as the yen depreciates.

[11] Price-to-book ratio: Share price divided by book value per share. Lower values indicate that shareholders are able to access greater amounts of an equity's book value at lower prices.
[12] Source: Bloomberg, with period measured as 1/31/1982–1/31/2012.
[13] Hedge in this context means securing a certain, future exchange rate at the present time, thereby eliminating the effect of changes in exchange rates between the U.S. dollar and the yen on portfolio returns.
[14] Source: "Toyota Slashes Full-Year Profit, Sales Outlook Because of Strong Yen, Thai Floods." The Washington Post. December 9, 2011.
[15] Source: CIA World Factbook.
[16] Correlation coefficient: statistical measure of how two indexes move in relation to each other. Correlation coefficients range from -1 to 1. A correlation of 1 means the two indexes move in lockstep with each other. A correlation of -1 means the two indexes have moved in exactly the opposite direction.
[17] Source: Zephyr StyleADVISOR.
[18] Source: Bloomberg.
[19] Hedged: refers to eliminating the impact of an exchange rate movement on an international investor's return, in this case a depreciation of the yen relative to the U.S. dollar.

IMPLICATIONS FOR THE GLOBAL DEBT LEADER

Japan's government has battled deflation for the better part of 20 years, while the country's gross government debt[20] has soared from about 72% of GDP in 1992 to more than 230% of GDP today.[21]

During various points in 2011, the United States as well as the peripheral nations of Europe found themselves positioned repeatedly in the center of a storm of sovereign debt[22] maladies. Remarkably, Japan has grown its debt at faster rates than the countries that are in focus as part of the current crisis, including much-maligned Greece. Italy is another country whose debt positions have been called into question, and Japan has almost double the debt-to-GDP ratio of Italy. Currently, half of Japan's tax revenue goes to support the interest payment it makes on its debt, but Japan also has among the lowest interest rates in the world on its long-term debt.[23] Some estimates have shown that if interest rates were to climb just 2 percentage points, essentially all of Japan's tax revenue would be needed to cover interest payments and its debt would be in an unsustainable spiral like that being experienced in such problem European countries as Greece, Portugal and Italy.[24]

The debt situation is troublesome, yet yen bulls argue that Japanese debt is almost completely self-funded or held by its citizens, both privately and in pensions. Domestically held debt tends to be "stickier" in that citizens tend to buy and hold while international investors are much more apt to reallocate away when certain pressures occur and opportunities abound elsewhere. As the population ages, this factor, currently supportive of Japan's giant debt burden, may change.

The share of Japan's elderly population, those older than 65, is at 23%, which is greater than the 13% they represent of the U.S. population or the 17% of the European Union.[25] By 2030, that number is expected to reach 38% for Japan, according to U.N. population profiles, while the United States is expected to see its share rise to Japan's levels today (23%).

Once Japan's citizens and pension plans transition from net savers and accumulators to net consumers, this could mean significant selling of their long-held Japanese government bonds. Who will buy Japan's extremely low-yielding government debt, if not its own citizens? It is difficult to imagine foreign investors being attracted to Japanese government bonds at such low rates of interest across the yield curve[26].

[20] Gross government debt: Measure of all of the debt that is a direct obligation of a sovereign government, frequently scaled and presented as a percentage of the country's gross domestic product.
[21] Source: International Monetary Fund, September 2011 World Economic Outlook .
[22] Sovereign debt: Debt where the principal and interest payments are the direct obligation of a government issuer.
[23] Source: Bloomberg.
[24] Source: Bloomberg.
[25] Source: CIA World Factbook.
[26] Yield curve: Depiction of interest rates on Japanese government bonds, with the current yield on the vertical axis and the years to maturity on the horizontal axis.

Figure 1 encapsulates a summary of three major factors that we believe have a fundamental impact on a nation's currency, as of 12/31/2011.

FIGURE 1: CURRENCY FUNDAMENTALS: GDP, DEBT-TO-GDP RATIOS AND REAL INTEREST RATES

Country	2011 GDP Growth Rate	Gross Government Debt/GDP Ratio	Real Interest Rate
Japan	-0.47%	233.10%	0.39%
United Kingdom	1.14%	80.76%	-3.82%
Spain	0.78%	67.42%	-1.93%
France	1.65%	86.81%	-1.21%
Italy	0.64%	121.07%	-1.67%
South Korea	3.91%	32.02%	-1.45%
United States	1.53%	100.05%	-2.83%
Germany	2.73%	82.64%	-1.30%
Australia	1.80%	22.82%	0.89%
Canada	2.08%	84.12%	-1.85%

Sources: IMF estimates 2011, Bloomberg, WisdomTree

+ **Lack of Economic Growth:** Prior to March 2011, Japan's economy was already struggling to grow, as the global appetite for Japanese goods had shrunk in 2008 and 2009 due largely to the impact of the financial crisis; but the earthquake, tsunami and nuclear disaster crippled the country's economic growth in 2011. Given its rapidly aging population, it does not appear that Japan's economic growth prospects have a meaningful chance of helping to reduce its debt burden.
+ **Real Interest Rates:** While Japan's debt and economic growth statistics paint a gloomy picture for the yen's prospects, there is one currency fundamental where Japan shows relatively more attractive marks by being the least ugly: Japan was one of two countries in the developed world (shown in figure 1) that had positive real interest rates[27]. Only Australia's real interest rate was higher. Most of the developed countries shown in figure 1 had very low nominal interest rates[28] with positive inflation. Japan, on the other hand, has been close to zero nominal interest rates for an extended period, but Japan has been experiencing deflation, which causes its positive real interest rate. That does not stop Japan's own citizens from investing in higher interest rate markets such as Brazil or Australia in search of higher yields. But the relatively high real interest rate for Japan is one factor that yen bulls discuss.

YEN INTERVENTION—CAN IT ACTUALLY WORK?

One strategy that governments employ to ease pressures from escalating debt balances has been inflation, which is essentially the practice of paying down a set face value of debt with currency units that are worth less than they were when the debt was originally issued. In other words, countries have tended to attempt to "inflate their way out of debt." Japan has experienced the opposite—deflation, which has made its debt burden tougher and tougher to manage as time has gone by.

[27] Real interest rates: Here, shown as the annualized one month rate of interest minus the annualized rate of inflation, meant to depict the interaction of inflation and short-term interest rates.
[28] Nominal interest rates: One month annualized interest rates without accounting for the effect of inflation.

Perhaps trying to change course, on February 14, 2012, the BOJ surprised markets by increasing its asset buying and lending program, specifically with respect to Japanese Government Bonds (JGBs), by 10 trillion yen, putting the total program's asset purchasing authorization at about 30 trillion yen through 2012. Potential lending in the program is set at about 35 trillion yen. Also, the BOJ announced a plan to essentially target an inflation goal in an attempt to spur economic growth. The BOJ clearly hopes to re-introduce inflation to the economy, something that would greatly improve the deteriorating debt dynamics, especially over the longer term.[29]

Japan's central bank has engaged in significant quantitative easing measures[30], and purchases of government bonds have not been its only means of operation. Over 1 trillion yen of purchases also have been authorized in commercial paper, corporate bonds and exchange-traded funds (ETFs)[31], and there is over 100 billion yen of authorization to purchase real estate investment trusts (REITs)[32] as well.[33] These latest monetary policy measures might suggest to the market that the BOJ is willing to consider expanding these non-conventional asset purchase programs that could provide further support to the Japanese capital markets.

For those who do not believe the BOJ can be effective at changing the yen's course, this view is likely influenced by one of three factors: 1) Japan's persistent deflation, 2) a return to Japanese trade surplus, 3) the belief that the yen will appreciate during a bout of "risk-off trading[34]." This last point is one of the most interesting aspects of the Japanese yen. Despite its own debt dynamics, the yen has been viewed as a safe-haven currency during the volatile markets and risk-off trading pattern witnessed since the financial crisis of 2008.

FIGURE 2A: JAPANESE YEN PERFORMANCE [Average Annual Returns, as of 12/31/2011]

				Total Return NAV (%)			Market Price (%)		
	Fund Ticker	Fund Exp. Ratio	WT Fund Inception Date	1-Year	3-Year	Since WT Fund Inception	1-Year	3-Year	Since WT Fund Inception
WisdomTree Dreyfus Japanese Yen Fund	JYF	0.35%	5/21/08	5.09%	5.35%	8.29%	4.37%	5.58%	8.29%
Japanese Yen (JPY)				5.41%	5.62%	8.48%	5.41%	5.62%	8.48%
BofA Merrill Lynch Japanese Yen 1-Month LIBID Constant Maturity Index (L1JY)				5.49%	5.74%	8.72%	5.49%	5.74%	8.72%

Source: Zephyr StyleADVISOR

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 www.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. EST 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.

You cannot invest directly in an index. Index performance does not represent actual Fund or portfolio performance. A Fund or portfolio may differ significantly from the securities included in the index. Index performance assumes reinvestment of dividends but does not reflect any management fees, transaction costs or other expenses that would be incurred by a portfolio or Fund, or brokerage commissions on transactions in fund shares. Such fees, expenses and commissions could reduce returns.

[29] Source: Bank of Japan

[30] Quantitative easing measures: Methods through which a central bank engages in expansionary monetary policy, characterized by purchasing different types of assets, thereby increasing the supply of money in the economy.

[31] Exchange-traded funds (ETFs): Baskets of stocks that can be traded intraday, in contrast to mutual funds, which only trade at the end of the day.

[32] Real estate investment trusts (REITs): Investment pools that focus investor money toward the purchase of real estate assets.

[33] Source: Bank of Japan. < http://www.boj.or.jp/en/mopo/measures/term_cond/yoryo52.htm/>

[34] Risk-off trading: Period when investors sell what they perceive to be riskier assets, such as equities, and purchase what they perceive to be less risky assets, such as U.S. government bonds.

FIGURE 2B: ASSET CLASS RETURNS OVER THE LAST 3.5 YEARS—LARGELY A RISK-OFF ENVIRONMENT

[Risk, Return, Maximum Drawdown and Correlation Statistics, 6/1/2008–1/31/2012]

					Correlation Coefficients to Equity Asset Classes	
	Asset Class[35]	Return (%)	Risk (%)[36]	Maximum Drawdown[37]	S&P 500 Index	MSCI Japan Local Currency Index
WisdomTree Dreyfus Japanese Yen Fund (NAV)	Japanese Currency	9.07%	10.68%	-9.10%	-0.10	-0.43
Japanese Yen (JPY)	Japanese Currency	9.26%	10.50%	-9.14%	-0.10	-0.40
BofA Merrill Lynch Japanese Yen 1-Month LIBID Constant Maturity Index (L1JY)	Japanese Currency	9.50%	10.69%	-9.03%	-0.10	-0.43
MSCI Japan Index	Japanese Equities	-6.98%	19.51%	-42.98%	0.77	0.87
MSCI Japan Local Currency Index	Japanese Equities	-14.88%	21.11%	-47.15%	0.74	1.00
MSCI EAFE Index	Developed International Equities	-6.97%	25.51%	-52.74%	0.93	0.78
MSCI Emerging Markets Index	Emerging Market Equities	-2.32%	31.63%	-57.97%	0.88	0.73
Barclays Capital U.S. Aggregate Index	U.S. Investment Grade Bonds	6.89%	3.87%	-3.67%	0.19	0.15
S&P GSCI Gold Index	Gold	19.05%	23.61%	-23.07%	0.16	0.02
Dow UBS Commodity Index	Commodities	-9.95%	23.14%	-54.26%	0.68	0.51
Citigroup 3-Month Treasury Bill Index	U.S. Short-Term Government Debt	0.32%	0.15%	0.00%	-0.41	-0.44
S&P 500 Index	U.S. Equities	0.45%	21.21%	-46.41%	1.00	0.74

Source: Zephyr StyleADVISOR

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 investo'rs shares, when redeemed, may be worth more or less than their original cost. Performance data for the most recent month-end is available at www.wisdomtree.com.

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[35] Asset class: Selections of asset classes are meant to give a broad indication of how an array of different assets that may be included in portfolios of U.S. investors have behaved relative to the Japanese yen. Indexes are meant to be representative of these asset classes, which are driving the selections. Asset classes are not meant to be exhaustive of all possible options for a portfolio.

[36] Risk: Annualized standard deviation. Lower numbers indicate less volatility of returns around the average return.

[37] Maximum drawdown: This is the maximum loss (compounded, not annualized) that the manager ever incurred during any subperiod of the entire time period. A lower maximum drawdown implies more downside protection than a higher maximum drawdown over the same period. Downside protection represents the potential for one index or investment to potentially go down less than another index or investment at a time when many indexes or investments are exhibiting negative performance.

When investors view the world as being in "risk-on[38]" mode, there are many investment options to choose from. The tougher market environment for investors to operate in is the "risk-off" periods, when there are few assets that can help protect portfolios from declines in risky assets.

The Japanese yen has been one of the few assets that appreciated during recent risk-off market trading. This currency is by no means risk-free, as we have outlined earlier in this piece, but it is interesting to examine its behavior through the lens of risk-on and risk-off market cycles.

From 6/1/2008 to 1/31/2012, the market environment can largely be characterized as a risk-off environment, with the major equity indexes—the S&P 500, the MSCI EAFE, MSCI Japan and MSCI Emerging Markets indexes—declining between -2.32% and -6.98% per year while the Dow UBS Commodity Index had a decline of -9.95% per year.

The NAV return of JYF (+9.07% per year) stands out relative to the indexes shown. Note how the yen appreciated while the MSCI Japan Index (in USD) had exposure to currency and equities and provided a significantly negative return. In short, even with the currency providing a tailwind, the negative performance of Japan's locally denominated equities was the stronger factor leading to negative performance when converted into U.S. dollars.

Portfolio diversification potential is a concept that can be shown through correlation. Besides U.S. Treasury Bills, JYF was the only other asset included in this analysis with a negative correlation to the S&P 500 Index. This negative correlation and positive performance during the choppy markets are why some investors have used the yen as a risk-off diversifier in addition to positions in gold or U.S. Treasuries. During this 3.5 year period, even gold had a positive correlation to the S&P 500 Index.

WHAT CAUSES THE YEN TO RALLY DURING RISK-OFF CYCLES?

One of the reasons the yen has gone up during periods of volatility we believe stems from the yen's role in the "yen carry trade"—even if just from a market psychology perspective.

The mechanics of this "yen carry trade" are as follows: Japan's short-term interest rates have been among the lowest in the world for much of the past decade. A popular trade prior to 2008 was to borrow yen at this very low rate and then deploy those borrowed funds into riskier, higher-yielding assets. As long as those risky assets provided returns above the exceptionally low cost of borrowing in yen, the strategy was profitable. However, in more uncertain, risk-off environments, investors will look to unwind this trade—buying yen to cover their borrowings and selling their positions in risky assets. For that reason, the yen often appreciates during bouts of heightened volatility and declines in the equity markets, as we have witnessed over the last three years.

The appreciation during some of these risk-off periods was so significant at various points in 2011 that the BOJ actually intervened on three occasions in 2011 in an attempt to drive the value of the yen lower[39] relative to the U.S. dollar. In all three cases, the desired impact of intervention proved to be short-lived, as speculators quickly drove the yen to new highs against the U.S. dollar.

Past performance is not indicative of future results.

[38] Risk-on: Period where investors perceive the markets to be more supportive of risky assets, such as equities and less supportive of less risky assets, such as U.S. government bonds.

[39] Source: Ned Rumpeltin, "The Third Time Will Not Be the Charm." Standard Chartered. November 1, 2011.

One of the primary risks to using the yen as a safe-haven[40] asset would be if the Japanese central bank were to ever implement an intervention program that worked effectively. The Swiss National Bank (SNB) provides an example of a currency intervention that was quite effective. On 9/6/2011, the SNB signaled a willingness to engage in unlimited policies to keep the Swiss franc from appreciating beyond a certain value of the euro.[41] In this case, the Swiss franc, which was being used as part of the risk-off toolbox of investment options, immediately dropped back to lower levels and has not reached the pre-intervention highs since.

Going forward, it might be unrealistic to expect the same magnitude of performance during risk-off periods. Prior to 2008, Japan stood alone with sub-1% yields. Now, with developed market yields falling around the world to historically low levels, the yen is no longer the only choice to use in funding carry trades. Borrowing in U.S. dollars is increasingly an option when trading desks implement carry trades.

Will the yen continue to appreciate relative to the U.S. dollar? There are a lot of questions about long-term debt and demographic problems in Japan that could put pressure on the value of the yen. On the other hand, Japan's persistent relative deflation for the last 20 years has supported appreciation of the currency. The future course is clearly an open question, but if there is another extended round of risk-off trading to enter the market over the coming years, the yen has a reasonable likelihood of appreciating.

[40] Safe-haven: Colloquialism referring to a sought-after asset after in times of heighted volatility.
[41] Source: Costerg, et al., "Switzerland—Currency Peg of Last Resort." Standard Chartered. September 7, 2011.

AVERAGE ANNUAL RETURNS [Data as of 12/31/2011]

				Total Return NAV (%)					Market Price (%)				
	Fund Ticker	Fund Exp. Ratio	WT Fund Inception Date	1-Year	3-Year	5-Year	Since WT Fund Inception	10-Year	1-Year	3-Year	5-Year	Since WT Fund Inception	10-Year
WisdomTree Japan Hedged Equity Fund	DXJ	0.48%	6/16/06	-15.22%	-4.72%	-9.07%	-6.71%	N/A	-15.91%	-5.88%	-9.25%	-6.72%	N/A
Spliced Cap-Weighted Index Benchmark				-18.73%	-4.89%	-10.22%	-7.86%	N/A	-18.73%	-4.89%	-10.22%	-7.86%	N/A
MSCI Japan Index				-14.33%	1.66%	-6.56%	-4.48%	2.99%	-14.33%	1.66%	-6.56%	-4.48%	2.99%
MSCI Japan Local Currency Index				-18.73%	-3.74%	-14.39%	-11.15%	-2.36%	-18.73%	-3.74%	-14.39%	-11.15%	-2.36%
MSCI EAFE Index				-12.14%	7.65%	-4.72%	-0.99%	4.67%	-12.14%	7.65%	-4.72%	-0.99%	4.67%
MSCI Emerging Markets Index				-18.42%	20.07%	2.40%	7.21%	13.86%	-18.42%	20.07%	2.40%	7.21%	13.86%
Barclays Capital U.S. Aggregate Index				7.84%	6.77%	6.50%	6.83%	5.78%	7.84%	6.77%	6.50%	6.83%	5.78%
S&P GSCI Gold Index				9.63%	20.14%	18.54%	18.46%	17.93%	9.63%	20.14%	18.54%	18.46%	17.93%
Dow UBS Commodity Index				-13.32%	6.39%	-2.07%	-1.82%	6.63%	-13.32%	6.39%	-2.07%	-1.82%	6.63%
Citigroup 3-Month Treasury Bill Index				0.08%	0.12%	1.36%	N/A[42]	1.85%	0.08%	0.12%	1.36%	N/A[42]	1.85%
S&P 500 Index				2.11%	14.11%	-0.25%	2.24%	2.92%	2.11%	14.11%	-0.25%	2.24%	2.92%

Source: WisdomTree, Bloomberg

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[42] The Citigroup 3-Month Treasury Bill Index is calculated monthly and therefore cannot be calculated from 6/16/2006, an intramonth period.

WISDOMTREE SOLUTIONS

If investors believe there is potential for the yen to depreciate, then Japan's exporting companies should potentially benefit and we believe investors could look to add exposure to Japanese equities with hedged currency exposure, like the exposure offered in the WisdomTree Japan Hedged Equity Fund (DXJ).

If one believes that the yen will continue to strengthen in the face of market adversity, we believe it is worth considering direct yen exposure in the WisdomTree Dreyfus Japanese Yen Fund (JYF). A continued strengthening of the yen, we believe, is negative for the Japanese equity markets and equity funds that have the yen exposure we believe could be an inefficient way to implement that market view.

Unless otherwise stated, data source is WisdomTree.

As of 3/13/2012, DXJ had 3.16% weight in Toyota, 1.24% in Nintendo, 0.31% in Toshiba and 0.18% in Sony.

As of 3/13/2012, JYF had no weight in Toyota, Nintendo, Toshiba or Sony.

Index Definitions:

Barclays Capital U.S. Aggregate Index: Broad-based benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market, including treasuries, government-related, corporate, mortgage-backed, asset-backed and commercial mortgage-backed securities. MSCI EAFE Index: Market cap-weighted index composed of companies representative of the developed market structure of 21 developed countries in Europe, Australasia and Japan. MSCI Emerging Markets Index: Market capitalization-weighted index that is designed to measure equity market performance of emerging markets. S&P GSCI Gold Index: Benchmark for investment performance of gold futures contracts, and a sub-index of the broader S&P GSCI Index, widely used to indicate the performance of commodities. Dow UBS Commodity Index: Broadly diversified representation of commodity markets as an ass et class, composed of exchange-traded futures on 19 physical commodities. MSCI Europe Index: Market capitalization-weighted index that measures the performance of European equities.

Citigroup 3-Month Treasury Bill Index: Index of 3-month treasury bills, reflecting the reinvestment of dividends and capital gains. S&P 500 Index: Capitalization-weighted index of 500 stocks selected by the Standard & Poor's Index Committee designed to represent the performance of the leading industries in the United States economy. MSCI Japan Index: The MSCI Japan Index is a subset of the MSCI EAFE Index and measures the performance of the Japanese equity market. The MSCI Japan Local Currency Index: Identical to the MSCI Japan Index except for the fact that its returns are denominated in yen as opposed to U.S. dollars. BofA Merrill Lynch Japanese Yen 1-Month LIBID Constant Maturity Index (L1JY): One-month constant maturity LIBID Index tracks a consistent investment in 1-month appropriate currency-denominated bank deposits. LIBID is the London Interbank Bid Rate, or the rate at which banks are willing to borrow. The spliced cap-weighted benchmark for the WisdomTree Japan Hedged Equity Fund is the MSCI Japan Index from 6/16/2006 through 4/1/2010, and the MSCI Japan Local Currency Index thereafter.

Investors should carefully consider the investment objectives, risks, charges and expenses of the Fund before investing. To obtain a prospectus containing this and other important information, call 866.909.WISE (9473) or visit wisdomtree.com. Read the prospectus carefully before you invest.

There are risks associated with investing, including possible loss of principal. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. The Fund focuses its investments in Japan, thereby increasing the impact of events and developments associated with the region, which can adversely affect performance. Investments in currency involve additional special risks, such as credit risk and interest rate fluctuations.

Derivative investments can be volatile, and these investments may be less liquid than other securities and more sensitive to the effect of varied economic conditions. As this Fund can have a high concentration in some issuers, the Fund can be adversely impacted by changes affecting those issuers. Unlike typical exchange-traded funds, there are no indexes that the Fund attempt to track or replicate. Thus, the ability of the Fund to achieve its objectives will depend on the effectiveness of the portfolio manager. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

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