

Value Stocks: Drawdown Mitigators or Aggravators?

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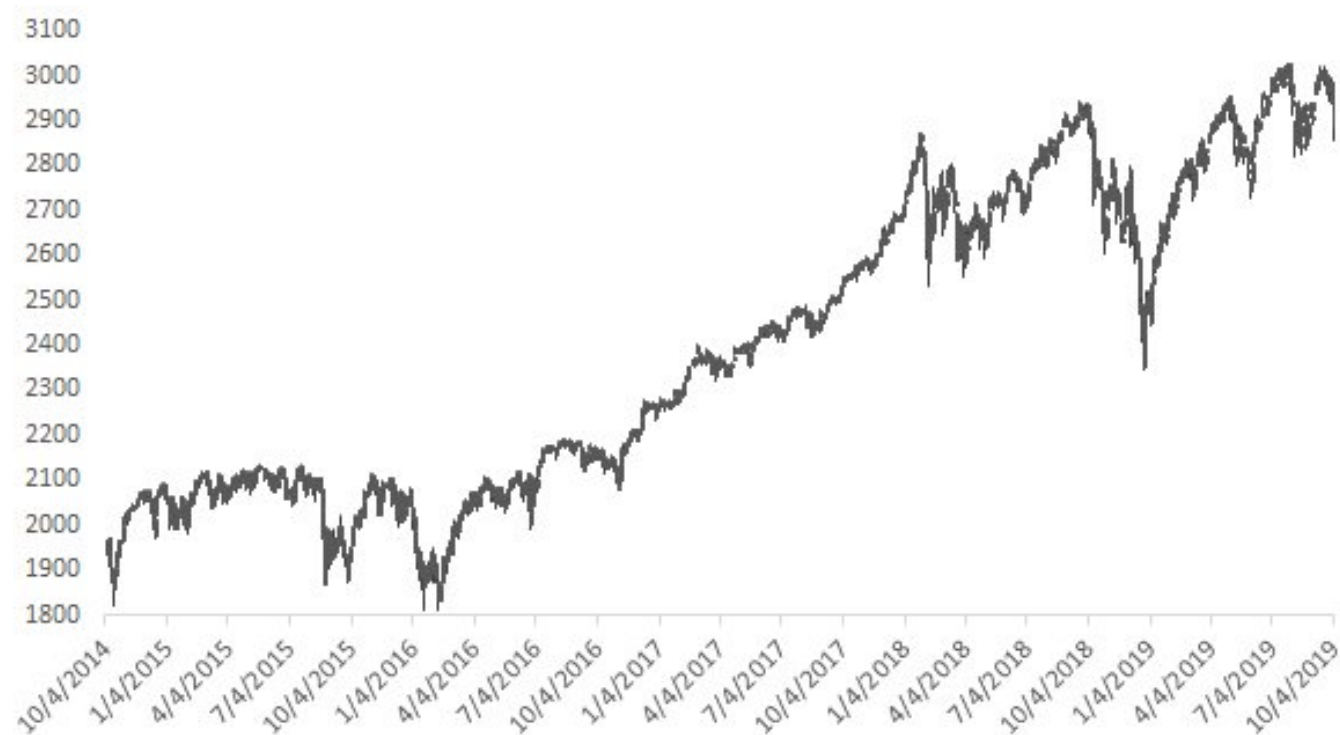
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The [S&P 500 Index](#) has been struggling at the 3,000 level for months. After piercing that psychological number to the upside and then stumbling in May, U.S. equities seemed unstoppable back in the summer—in June and July—when the market was up 7.1% and 1.4%, respectively.

But August and September were choppy. We are to the point where this market has done a lot of nothing since its January 2018 peak of 2,872. At 2,926, the S&P 500 looks topky.

Figure 1: S&P 500 Index



Source: Bloomberg, through 10/4/19. Past performance is not indicative of future results. You cannot invest directly in an index.

Value Stocks in Bulls and Bears

Since we launched our first ETFs in June 2006, the [S&P 500 Growth Index](#) has outperformed its Value counterpart by nearly 4 percentage points a year (+10.7% vs. +7.0%, 06/16/06–10/4/19).

When did Value struggle during this time?

In figure 2, green and red ink denote outperformance or underperformance relative to the S&P 500. WisdomTree's dividend-oriented methodologies had disappointing runs in the bullish environments.

Figure 2: The Bull Runs

S&P 500			WisdomTree U.S. LargeCap Dividend Fund	WisdomTree U.S. LargeCap Dividend Index	WisdomTree U.S. High Dividend Fund	WisdomTree U.S. High Dividend Index	Russell 1000 Value Index	S&P 500 Value Index
Start	End	SPX	DLN	WTLDI	DHS	WTHYE	RLV	SVX
6/3/2019	9/12/2019	10.3%	9.8%	9.9%	8.1%	8.2%	8.6%	11.3%
12/24/2018	4/30/2019	26.1%	23.4%	23.5%	19.5%	19.7%	22.8%	24.0%
2/8/2018	9/20/2018	15.0%	12.1%	12.3%	10.4%	10.7%	10.7%	10.3%
2/11/2016	1/26/2018	63.5%	56.3%	57.4%	43.2%	44.4%	58.2%	59.2%
8/25/2015	11/3/2015	13.4%	13.8%	13.9%	13.7%	13.8%	12.5%	12.4%
10/15/2014	5/21/2015	15.8%	13.2%	13.4%	10.6%	10.8%	13.7%	13.6%
6/1/2012	9/18/2014	65.3%	56.3%	57.3%	51.0%	52.1%	70.9%	68.0%
11/25/2011	4/2/2012	23.4%	20.3%	20.5%	17.6%	17.8%	23.2%	25.3%
10/3/2011	10/28/2011	17.1%	13.2%	13.3%	11.2%	11.3%	18.4%	18.3%
7/2/2010	4/29/2011	35.5%	34.8%	35.2%	33.7%	34.3%	34.5%	34.4%
3/9/2009	4/23/2010	84.2%	79.4%	81.0%	103.2%	105.2%	94.6%	95.6%
11/20/2008	1/6/2009	24.7%	22.5%	22.6%	27.5%	27.7%	27.0%	26.3%
10/27/2008	11/4/2008	18.5%	17.7%	17.8%	19.0%	19.2%	18.8%	19.0%
3/10/2008	5/19/2008	12.5%	10.1%	10.5%	9.4%	9.7%	12.4%	11.1%
8/15/2007	10/9/2007	11.6%	10.8%	11.0%	10.9%	11.0%	11.3%	11.6%
6/16/2006	7/19/2007	26.6%	26.2%	26.3%	23.6%	23.6%	27.7%	27.8%
Median		23.4%	20.3%	20.5%	19.0%	19.2%	22.8%	24.0%

Sources: WisdomTree, Bloomberg, 10/4/19. Past performance is not indicative of future results. 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.

Please click the Funds respective tickers for standardized performance: [DHS](#), [DLN](#).

But the [WisdomTree U.S. LargeCap Dividend Fund \(DLN\)](#) and [WisdomTree U.S. High Dividend Fund \(DHS\)](#) are 5- and 4-star Morningstar rated*, respectively. So what gives?

What gives is that we had better experiences during the rough patches. Figure 3 shows all of the S&P 500's significant declines since we launched our ETF business 13 years ago. I also added 2019's two small retracements for the reader's edification.

It seems the Russell and S&P Value methodologies couldn't hold up when the going got tough.

Figure 3: The Bear Runs

S&P 500			WisdomTree U.S. LargeCap Dividend Fund	WisdomTree U.S. LargeCap Dividend Index	WisdomTree U.S. High Dividend Fund	WisdomTree U.S. High Dividend Index	Russell 1000 Value Index	S&P 500 Value Index
Start	End	SPX	DLN	WTLDI	DHS	WTHYE	RLV	SVX
7/26/2019	8/14/2019	-6.0%	-5.8%	-5.8%	-5.4%	-5.4%	-6.8%	-6.5%
4/30/2019	6/3/2019	-6.6%	-5.8%	-5.8%	-4.6%	-4.6%	-5.6%	-6.9%
9/20/2018	12/24/2018	-19.4%	-16.8%	-16.8%	-14.0%	-14.1%	-17.9%	-18.4%
1/26/2018	2/8/2018	-10.1%	-10.0%	-10.0%	-10.2%	-10.2%	-10.1%	-10.2%
11/3/2015	2/11/2016	-12.7%	-10.2%	-10.2%	-6.8%	-6.7%	-13.8%	-12.2%
5/21/2015	8/25/2015	-11.9%	-13.2%	-13.2%	-12.2%	-12.2%	-13.5%	-13.7%
9/18/2014	10/15/2014	-7.3%	-6.2%	-6.2%	-4.7%	-4.7%	-7.8%	-7.3%
4/2/2012	6/1/2012	-9.6%	-7.2%	-7.2%	-4.0%	-3.9%	-9.7%	-10.9%
10/28/2011	11/25/2011	-9.6%	-7.5%	-7.5%	-6.7%	-6.7%	-10.4%	-10.5%
4/29/2011	10/3/2011	-18.6%	-13.3%	-13.2%	-9.3%	-9.1%	-21.5%	-22.1%
4/23/2010	7/2/2010	-15.6%	-12.6%	-12.6%	-9.1%	-9.0%	-16.6%	-16.2%
1/6/2009	3/9/2009	-27.2%	-30.9%	-31.0%	-39.7%	-40.0%	-32.6%	-32.6%
11/4/2008	11/20/2008	-25.0%	-25.7%	-25.8%	-32.2%	-32.4%	-27.0%	-28.4%
5/19/2008	10/27/2008	-39.9%	-36.4%	-36.3%	-36.6%	-36.6%	-40.1%	-40.1%
10/9/2007	3/10/2008	-17.9%	-18.5%	-18.7%	-23.3%	-23.2%	-19.7%	-19.8%
7/19/2007	8/15/2007	-9.3%	-8.5%	-8.5%	-8.3%	-8.4%	-10.3%	-10.0%
Median		-12.3%	-11.4%	-11.4%	-9.2%	-9.0%	-13.6%	-13.0%

Sources: WisdomTree, Bloomberg, 06/16/06–10/4/19.

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 on the Fund's webpage.

Nothing is foolproof, and this is no secret sauce—note the 2008 and 2009 red ink, when our Funds still underperformed the banks because they hadn't yet slashed their dividends.

But we have nearly a generation of history to go by, and the declines have been favorable periods to be in dividend-weighting. Of the 16 declines for the S&P 500, DLN had a better experience in 12 of them, while DHS outperformed in 11. Critically, this happened even though Value stocks, as defined by Russell and S&P, were dying on the vine. The red ink on the right of the exhibit attests to that.

So has Value been a drawdown mitigator or aggravator? It depends on how you define it.

Unless otherwise stated, data source is Bloomberg, as of 10/4/19.

Important Risks Related to this Article

* As of 10/11/2019 Overall ratings Morningstar Ratings are based on risk adjusted returns and is a weighted average of its applicable 3, 5, and 10 year rating's, out of 1,086 funds in the Large Value Category.

There are risks associated with investing, including the possible loss of principal. Funds focusing their investments on certain sectors increase their vulnerability to any single economic or regulatory development. This may result in greater share price volatility. Please read each Fund's prospectus for specific details regarding the Fund's risk profile.