What Did Our Annual Index Rebalance Uncover? Value Opportunity in Emerging Markets

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At WisdomTree, a critical way for us to identify valuation opportunities is through our annual Index rebalancing. Our process is designed to evaluate the underlying fundamentals of Index constituents each year. For our dividend Indexes, this translates to reweighting companies in an Index relative to their contribution to the *Dividend Stream®* —the sum total of all dividends paid within a given Index. We impart a disciplined focus on valuation by typically: • increasing weight to firms that are growing their dividends—especially in cases where share price performance has not yet responded • decreasing weight from firms that see their dividends decrease, especially following runs of strong share price appreciation Looking at current valuations across the world, some of the lowest-priced stocks are found in the emerging markets. While the U.S. markets1 have been on a tear over the last five years, emerging markets have shown lackluster returns. This relative underperformance may be creating some special valuation opportunities for value-minded investors. We analyze below how the exposure characteristics of each WisdomTree Index changed at the most recent annual rebalance. The fact that, outside of the WisdomTree Emerging Markets Dividend Growth Index, each exhibited a higher trailing 12-month dividend yield after the rebalance was not surprising. However, the behavior of the price-to-earnings (P/E) ratio is, by and large, a welcome bonus. While the screening methodology does not specifically focus on earnings for any of the Indexes shown, we note that four out of five exhibit lower P/E ratios following the rebalance.
Summarizing the Impact of the Rebalance

Valution Statistics	P/E Ratio		Dividend Yields (%)	
Index	Pre-Reconstituion[1]	Post-Reconstitution[2]	Pre-Reconstituion[1]	Post-Reconstitution[2]
WT Emerging Markets Equity Income	10.3x	9.7x	5.71%	6.10%
WT Emerging Markets SmallCap Dividend	12.7x	11.1x	4.31%	4.60%
WT Emerging Markets Dividend Growth	14.9x	14.5x	3.66%	3.65%
WT Middle East Dividend	14.1x	14.1x	4.08%	4.41%
WT Emerging Markets Dividend	11.6x	11.3x	4.46%	4.54%

[1]Pre-Reconstitution: Refers to Index statistics measured as of 9/30/14.
[2]Post-Reconstitution: Refers to Index statistics measured as of the 9/30/14 Index screening and accounts for changes occurring as a result of the annual application of the Index screening methodology.
Sources: WisdomTree, Bloomberg, Standard & Poor's. Past Performance is not indicative of future results.

For definitions of terms and Indexes in the chart, please visit our glossary. For more information on these Indexes and full rebalance details, click here. 1Refers to S&P 500 Index universe; source: Bloomberg, as of 9/30/14.

Important Risks Related to this Article

Investments in emerging, offshore or frontier markets are generally less liquid and less efficient than investments in developed markets and are subject to additional risks, such as risks of adverse governmental regulation and intervention or political developments. 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.