

# What Is Beta for Developed World Dividend Payers?

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One of the key developments thus far in 2015 has been the outperformance of developed world equity markets<sup>1</sup> compared to the U.S. In recent weeks, that return differential has narrowed, as overseas investors discount an “accident” in Greece, while U.S. investors remain focused on the timing of pending Fed rate hikes. Global equity markets may be range-bound until we get greater visibility over how these events unfold—in Greece over the coming weeks, and in Washington over the coming months. As investors pause to [reposition their portfolios](#)—and with global interest rates likely to remain at historic lows for some time—many investors continue to search for ways to squeeze dividend income out of their equity exposure. This raises an interesting question: What index should be “beta” for measuring how well your international dividend exchange-traded fund (ETF) or foreign equity income manager is performing compared to an index of the developed world’s dividend payers? In 2006, WisdomTree created what we believe is the broadest gauge of the dividend-paying universe in the developed world outside the U.S.: the [WisdomTree DEFA Index \(WT DEFA Index\)](#). That Index comprises more than 2,400 dividend-paying companies selected from 15 developed European countries, Japan, Australia, New Zealand, Hong Kong, Israel and Singapore.<sup>2</sup> The Index, which sported a total market capitalization of more than \$18.5 trillion as of this same point in time, is a barometer for how the dividend-paying part of the market is performing in industrialized countries outside the U.S. and Canada. Many don’t realize this but internationally, dividend-paying stocks could literally be considered the market. For example, about 98% of the weight in the MSCI EAFE Index consists of dividend-paying securities.<sup>3</sup> That means WisdomTree can weight its broad international benchmark based on the cash dividends companies have paid in the prior year, while ending up with a representative measure of the developed world equity market. Since its inception in May 2006, the WisdomTree DEFA Index has exhibited a 0.99 correlation to the MSCI EAFE Index. One benefit of dividend-weighting an equity market is that the dividend yield typically increases compared to a comparable cap-weighted index. As of March 31, for example, the WT DEFA Index had a trailing 12-month dividend yield of 3.72%, at a time when the MSCI EAFE Index was yielding 2.98%.<sup>4</sup> Yet historically higher dividend yields have not compromised the Index’s ability to generate total returns that exceeded EAFE on a cumulative basis since June 1, 2006. This is important. Sometimes when investors reach for yield, they sacrifice the total return potential of their equity exposure. **WisdomTree DEFA Index vs. MSCI EAFE Index (6/1/2006--3/31/2015)**



Source: Bloomberg, with data from 6/1/06 WisdomTree DEFA Index inception date to 5/31/15. Past performance is not indicative of future results. 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.

| From 6/1/2006 to 3/31/2015 | 1-Year | 3-Year | 5-Year | Avg. Ann. Return | Avg. Ann. Std. Dev. | Sharpe Ratio | Beta | Correlation | Tracking Error | Information Ratio |
|----------------------------|--------|--------|--------|------------------|---------------------|--------------|------|-------------|----------------|-------------------|
| WisdomTree DEFA Index      | -1.8%  | 9.4%   | 6.4%   | 3.9%             | 19.2%               | 0.14         | 1.01 | 0.99        | 2.11           | 0.43              |
| MSCI EAFE Index            | -0.9%  | 9.0%   | 6.2%   | 3.0%             | 18.9%               | 0.10         | 1.00 | 1.00        | 0.00           | 0.00              |

Sources: WisdomTree, Bloomberg, Zephyr StyleADVISOR. Beta, correlation, tracking error and information ratio are calculated relative to the MSCI EAFE Index benchmark.

For definitions of terms and indexes in the chart, please visit our [glossary](#). As we see in the chart above, on an annualized basis DEFA has outperformed EAFE by 90 basis points (bps) since its inception in June 2006. This is significant because this was a period when growth stocks in the developed world outperformed value stocks by 162 bps per year.<sup>5</sup> In fact, over this period, DEFA not only beat EAFE, it outperformed the growth cut of EAFE—dispelling some myths that fundamentally weighted indexes are merely “value” indexes dressed in the latest garb. The other interesting takeaway is the relatively low tracking error (about 2%) that the WisdomTree DEFA Index exhibited in relation to the MSCI EAFE Index. When we divide the excess returns by that tracking error, we end up with an information ratio of .43—a measure of risk-adjusted return. This is a ratio some use to determine whether an investment strategy has added any value when one accounts for the “active risk” of not using the standard cap-weighted benchmark for that asset class. For all these reasons—representativeness of the asset class, high correlation to MSCI EAFE, comparable volatility, higher historic total and risk-adjusted returns as well as a consistently higher dividend yield<sup>6</sup>—the WisdomTree DEFA Index could easily be considered the “beta” for measuring the dividend-paying part of the developed world. And for those who like the strategy, it is available from WisdomTree in an ETF that is designed to track the WisdomTree DEFA Index before fees and expenses and that has been trading since 2006 as the [WisdomTree DEFA Fund \(DWM\)](#). <sup>1</sup>Source: Bloomberg; refers to the MSCI EAFE Index universe versus the [S&P 500 Index](#) universe as of 6/19/15. <sup>2</sup>Source: Standard & Poor’s, with data as of the most recent Index screening date, 5/31/15. <sup>3</sup>Source: Bloomberg, as of 5/31/15. <sup>4</sup>Source: Bloomberg, as of 3/31/15. <sup>5</sup>Source: Bloomberg, with “growth” referring to the MSCI EAFE Growth Index universe, and “value” referring to the MSCI EAFE Value Index universe. <sup>6</sup>Since the inception of the WisdomTree DEFA Index, 108 month-end, trailing 12-month dividend yields have been calculated through

5/31/15, and all of them have been higher than those of the MSCI EAFE Index measured at the same times.

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