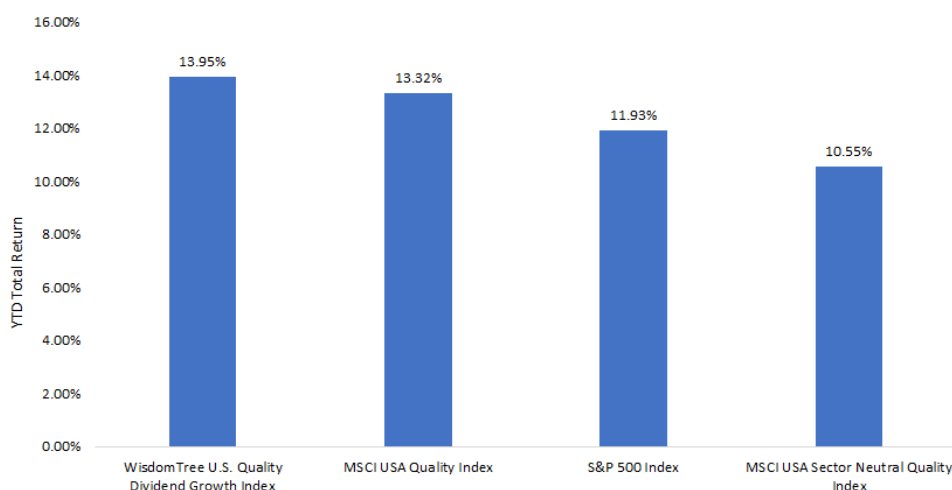


CAN YOU FIND QUALITY COMPANIES IN EVERY SECTOR?

Christopher Carrano — Vice President of Strategic Research at Venn by Two Sigma
09/19/2017

In what may be the late stages of a [bull](#) market, many investors have flocked to [quality](#). As a factor that may do well on the tail end of rising rates, quality can provide investors with the comfort that if markets turn, at least their money will be in companies with strong [balance sheets](#) that can potentially weather the storm better than others. This is one reason we believe the [WisdomTree U.S. Quality Dividend Growth Index](#), a strategy meant to measure [dividend](#) growth and the quality factor among large caps in the U.S. market, has bested the [S&P 500 Index](#) by more than 200 [basis points \(bps\)](#) year-to-date through August 31, 2017.

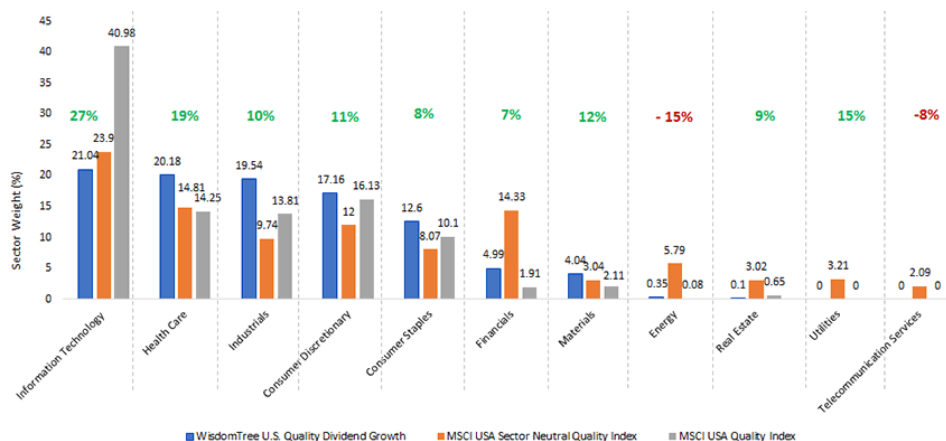


Sources: WisdomTree, Bloomberg, as of 8/31/17. You cannot invest directly in an index. Past performance is not indicative of future results. Index performance does not represent actual fund or portfolio performance. A fund or portfolio may differ significantly from the securities included in the index. 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. WisdomTree, its affiliates and their independent providers are not liable for any informational errors, incompleteness or delays or for any actions taken in reliance on information contained herein. Additional Index information is available at www.wisdomtree.com.

Yet, we noticed that not all indexes are taking advantage of the quality trend year-to-date. In fact, the [MSCI USA Sector Neutral Quality Index](#) is lagging the S&P 500 by almost 150 bps and lagging its non-sector-neutral counterpart by almost twice that, despite the positive environment for the factor it is designed to capture. We decided to dig a little deeper to pinpoint the differences among these Indexes and to ascertain why they might be capturing recent market trends so differently.

In the below chart, the numbers in red and green represent the total return for each S&P 500 sector year-to-date. The data above each column is the percentage weight each index had in those respective sectors as of August 31, 2017.

YTD Total Returns of S&P 500 Sectors as of 8/31/2017



Sources: WisdomTree, Bloomberg, MSCI fact sheets, as of 8/31/17. Red and green numbers represent YTD total returns of the respective S&P 500 sectors. Numbers above each column represent the percentage weight of each index in that sector.

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.

One thing that stood out to us about the WisdomTree U.S. Quality Dividend Growth Index and the [MSCI USA Quality Index](#) is how they seek out quality, wherever they may find it. That is what leads the Indexes to have almost 0% exposure to the energy sector and no exposure to telecommunications, the only two S&P 500 sectors that are negative year-to-date. The MSCI USA Sector Neutral Quality Index, however, forces itself to be sector neutral, picking “quality” companies in sectors that the WisdomTree Index and MSCI USA Quality Index avoided altogether.

The MSCI USA Quality Index, while performing well, has still lagged the WisdomTree U.S. Quality Dividend Growth Index despite an almost 20% over-weight to the best performing sector in the S&P 500: information technology. The WT Index, which caps individual sector bets at 20% during the annual [rebalance](#), found quality elsewhere and distributed weight to sectors such as health care, allowing it to keep pace and even outperform the MSCI USA Quality Index without running the same sector risk should information technology take a turn for the worst.

Conclusion

With quality currently outperforming, it’s important to know what makes up your index. In the case of the WisdomTree U.S. Quality Dividend Growth Index, we believe it has done its job of capturing dividend growth and quality while avoiding sectors that don’t possess it and not weighting too heavily those sectors that may have a lot of it. On May 22, 2013, WisdomTree launched the [WisdomTree U.S. Quality Dividend Growth Fund \(DGRW\)](#), an exchange-traded fund that seeks to track this Index.

Important Risks Related to this Article

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

Dividends are not guaranteed, and a company currently paying dividends may cease paying dividends at any time.

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

Bullish : a position that benefits when asset prices rise.

Quality : Characterized by higher efficiency and profitability. Typical measures include earnings, return on equity, return on assets, operating profitability as well as others. This term is also related to the Quality Factor, which associates these stock characteristics with excess returns vs the market over time.

Balance sheet : refers to the cash and cash equivalents part of the Current Assets on a firm's balance sheet and cash available for purchasing new position.

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

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.

MSCI USA Sector Neutral Quality Index : Refers to the MSCI USA Quality Index which is a large and mid cap US equity index aiming to capture the performance of quality growth stock. The Index screens its parent index, the MSCI USA Index for ROE, stable year-over-year earnings growth, and low financial leverage. Seeks to match the sector exposures the MSCI USA Index.

MSCI USA Quality Index : refers to the MSCI USA Quality Index which is a large and mid cap US equity index aiming to capture the performance of quality growth stock. The Index screens its parent index, the MSCI USA Index for ROE, stable year-over-year earnings growth, and low financial leverage.

Rebalance : An index is created by applying a certain set of selection and weighting rules at a certain frequency. WisdomTree rebalances, or re-applies its rules based selection and weighting process on an annual basis.