

WHEN TALKING ABOUT INCOME POTENTIAL, WHAT YIELD DO YOU MEAN?

01/22/2014

In perhaps one of the most confusing yet least talked about elements of the asset management industry, the concept of “yield” can be a particularly difficult conversation to have. Particularly in fixed income, where investors conceivably buy a bond fund for income, many advisors care about one number and one number only: “what is the yield?” Most of the time, these same advisors don’t like the response: “It depends what you mean by ‘yield.’” In an effort to promote transparency, we thought it might be a useful exercise to explain the yields quoted on our materials and provide an explanation as to not only the what, but also why we calculate them in the first place. For all these calculations, the data only represents a particular snapshot of the time when it was calculated.

Yield to Maturity: *The single discount rate that equates the present value of a bond’s cash flows to its market price. Also referred to as the internal rate of return of a bond.* This measure is perhaps the most basic to bond investors, but it does not take into account any fund-related expenses. However, it does provide investors with a glimpse into the income potential of the actual holdings of the portfolio.

Yield to Worst: *The rate of return generated assuming a bond is redeemed by the issuer on the least desirable date for the investor.* Similar to the yield to maturity, this measure may be more important with bonds that have embedded options where, in certain market scenarios, the bond may be called before its maturity. This measure is often a more conservative measure than yield to maturity and is the preferred yield measure on corporate bonds and portfolios.

Implied Yield: *The annualized rate of return generated by a fund’s investment in [forward currency contracts](#). The calculation is intended to show the yield of forward currency contracts, assuming that foreign exchange rates remain constant.* This measure is most relevant for currency strategy funds. At current levels, foreign interest rates are higher than those in the U.S. For this reason, a substantial portion of a forward currency contract’s return may be attributable to returns derived from exposure to foreign interest rates. These interest rates are “embedded” in the value of the forward currency contract and cannot be separated from the spot return component of the contract. For this reason, the currency strategy funds intend to distribute any capital gains on these contracts annually.

Embedded Income Yield: *Represents the annualized rate of return generated by a fund’s investments in both fixed income securities and derivatives exclusive of interest rate changes and movement in foreign exchange spot rates. The calculation is intended to capture the fund’s potential to earn income return over the next year given current holdings and market conditions. The embedded income yield will differ from the portfolio’s yield to maturity, due to the incorporation of derivatives in the embedded income yield.* This term is used to give investors an idea of what the income potential of the fund is by combining the yield to maturity of bonds and any impact on income potential from derivative positions (such as forward currency contracts). The term will also be relevant for the rising rate suite of products where the implied interest rate on the futures contracts is offset against the yield to maturity of the bond portion.

SEC 30-Day/Standardized Yield: *A standard yield calculation developed and required by the Securities and Exchange Commission (SEC). It is based on the most recent 30-day period*

covered by the fund's filings with the SEC. The yield reflects the dividends and interest earned during the period, after the deduction of the fund's expenses. This measure is required by the SEC. Distribution Yield/Indicated Yield: Calculated by annualizing the most recent fund distribution and dividing by the fund's current NAV. The yield represents a single distribution from the fund and does not represent the total returns of the fund. Many income-focused investors may be sensitive to how much net yield is distributed to fund shareholders. This amount is perhaps the most difficult to forecast in an exchange-traded fund. 12-Month Yield: The sum of the per-share dividends over the last 12 months, divided by the fund's current net asset value (NAV). In short, this is a 12-month trailing calculation of the distribution yield, mentioned above. In conclusion, while no single yield can give investors a completely transparent picture of a fund's income potential, the values listed above may provide some guidance to help them make their decisions.

Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. Fixed income investments are subject to interest rate risk; their value will normally decline as interest rates rise. In addition, when interest rates fall, income may decline. Fixed income investments are also subject to credit risk, the risk that the issuer of a bond will fail to pay interest and principal in a timely manner, or that negative perceptions of the issuer's ability to make such payments will cause the price of that bond to decline. Derivative investments can be volatile, and these investments may be less liquid than other securities, and more sensitive to the effects of varied economic conditions. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

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

Forward currency contracts: A forward contract in the forex market that locks in the price at which an entity can buy or sell a currency on a future date.