
IS THERE A BETTER WAY TO OWN DEVELOPED WORLD STOCKS?

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In a previous blog post on the WisdomTree domestic [dividend](#) family, I noted how all [five WisdomTree exchange-traded funds \(ETFs\) outperformed 95% of their peers over the past five years](#) and how all five ranked in their top quartile over the last 10 years. Some may wonder whether that impressive performance was just a U.S. phenomenon or whether there is a global application to dividend-weighting equity markets. WisdomTree believes dividend weighting makes sense all around the world. We conducted extensive research before launching our first dividend-weighted ETFs more than a decade ago and had reason to believe dividend weighting could potentially generate higher returns, not just in the U.S. but in developed and emerging markets as well. Now, when we look back a decade later, we see that 11 of WisdomTree's 12 dividend-weighted indexes with continuous 10-year track records beat their comparable [cap-weighted](#) indexes over the past decade in the U.S. and in the developed world. And after fees and expenses, eight of WisdomTree's 12 dividend-weighted ETFs tracking these indexes also did so. Over the last 10 years, developed world stocks have meaningfully underperformed the U.S. equity market. The [MSCI EAFE Index](#), a broad barometer of international stock performance, returned just 1.6% on an annualized basis over the last decade. That underperformance reflects the impact of the financial crisis in 2008–2009, the [sovereign debt](#) crisis in Europe in 2010–2012, and the rally in the U.S. dollar since the summer of 2011. As growth rates have come down in the developed world, and bond rates have plummeted to zero or less than zero, many investors are now re-examining and recalibrating their international equity exposure, looking for ideas on how to improve returns for the decade ahead. For some investors, such changes will take the form of [hedging more international currency risk](#) going forward. For others who intend to keep a portion or all of their exposures unhedged, a key to future performance may rest in capturing some of the advantages that have accrued to international investors who have tilted to the [smaller-size segments](#) of the market, or toward the higher dividend-yielding portion of the large-cap opportunity set. Here, WisdomTree's international ETFs are especially useful. When we examine the results of the seven WisdomTree dividend-weighted international ETFs, we can cull some interesting takeaways. **Average Annual Returns, WisdomTree International Dividend-Weighted Indexes and ETFs, 2006–2016**

Fund/Index	Fund Information			Average Annual Total Returns as of 6/30/2016										Percent of Peers Beaten in Respective Morningstar Category as of 6/30/2016				
	Ticker	WT Fund Inception	Expense Ratio	NAV Returns					Market Price Returns					Morningstar Category	1-year	3-year	5-year	10-year
				1-year	3-year	5-year	10-year	Since Fund Inception	1-year	3-year	5-year	10-year	Since Fund Inception					
WisdomTree International Equity Fund	DWM	6/16/2006	0.48%	-9.49%	2.62%	1.66%	2.03%	2.51%	-9.01%	2.85%	1.56%	2.08%	2.57%	Foreign Large Value	78%	85%	80%	92%
WisdomTree International Equity Index				-9.62%	2.73%	1.77%	2.34%	2.80%	-9.62%	2.73%	1.77%	2.34%	2.80%					
MSCI EAFE Index				-10.16%	2.06%	1.68%	1.58%	2.07%	-10.16%	2.06%	1.68%	1.58%	2.07%					
WisdomTree International LargeCap Dividend Fund	DOL	6/16/2006	0.48%	-10.34%	1.63%	0.93%	1.44%	1.93%	-9.99%	1.88%	0.95%	1.38%	1.90%	Foreign Large Value	71%	68%	69%	77%
WisdomTree International LargeCap Dividend Index				-10.26%	1.96%	1.15%	1.75%	2.23%	-10.26%	1.96%	1.15%	1.75%	2.23%					
MSCI EAFE Index				-10.16%	2.06%	1.68%	1.58%	2.07%	-10.16%	2.06%	1.68%	1.58%	2.07%					
WisdomTree International MidCap Dividend Fund	DIM	6/16/2006	0.58%	-8.28%	4.40%	2.82%	3.50%	3.93%	-8.20%	4.48%	2.70%	3.40%	3.89%	Foreign Small/Mid Value	55%	45%	47%	68%
WisdomTree International MidCap Dividend Index				-8.25%	4.81%	3.02%	3.63%	4.05%	-8.25%	4.81%	3.02%	3.63%	4.05%					
MSCI EAFE Mid Cap Index				-6.59%	4.90%	3.42%	2.55%	3.01%	-6.59%	4.90%	3.42%	2.55%	3.01%					
WisdomTree International SmallCap Dividend Fund	DLS	6/16/2006	0.58%	-4.61%	5.28%	5.02%	4.26%	4.59%	-4.02%	5.62%	5.08%	4.18%	4.60%	Foreign Small/Mid Value	78%	58%	81%	92%
WisdomTree International SmallCap Dividend Index				-4.16%	6.07%	5.44%	4.77%	5.07%	-4.16%	6.07%	5.44%	4.77%	5.07%					
MSCI EAFE Small Cap Index				-3.67%	7.36%	4.84%	3.37%	3.90%	-3.67%	7.26%	4.84%	3.57%	3.90%					
WisdomTree International High Dividend Fund	DTH	6/16/2006	0.58%	-10.11%	1.53%	0.83%	1.06%	1.49%	-9.86%	1.69%	0.72%	1.06%	1.49%	Foreign Large Value	73%	66%	66%	62%
WisdomTree International High Dividend Index				-10.04%	1.89%	1.10%	1.61%	2.03%	-10.04%	1.89%	1.10%	1.61%	2.03%					
MSCI EAFE Value Index				-15.43%	-0.10%	0.05%	0.21%	0.67%	-15.43%	-0.10%	0.05%	0.21%	0.67%					
WisdomTree Europe SmallCap Dividend Fund	DFE	6/16/2006	0.58%	-8.41%	9.22%	6.74%	4.36%	4.78%	-7.34%	9.53%	6.85%	4.31%	4.74%	Europe Stock	68%	99%	97%	91%
WisdomTree Europe SmallCap Dividend Index				-7.81%	10.60%	7.61%	4.91%	5.33%	-7.81%	10.60%	7.61%	4.91%	5.33%					
MSCI Europe Small Cap Index				-7.64%	7.79%	5.17%	4.64%	5.10%	-7.64%	7.79%	5.17%	4.64%	5.10%					
WisdomTree Japan SmallCap Dividend Fund	DFJ	6/16/2006	0.58%	-0.33%	7.33%	7.14%	2.42%	2.62%	-0.08%	7.20%	6.88%	2.43%	2.78%	Japan Stock	70%	70%	72%	71%
WisdomTree Japan SmallCap Dividend Index				-0.10%	7.75%	7.68%	3.05%	3.25%	-0.10%	7.75%	7.68%	3.05%	3.25%					
MSCI Japan Small Cap Index				3.20%	9.30%	7.95%	1.90%	2.08%	3.20%	9.30%	7.95%	1.90%	2.08%					

Sources: WisdomTree, Bloomberg, Morningstar as of 6/30/16. Number of managers in category: Foreign Large Value: 387 (1-Year), 299 (3-Year), 248 (5-Year), 143 (10-Year). Foreign Small/Mid Value: 78 (1-Year), 61 (3-Year), 48 (5-Year), 26 (10-Year). Europe Stock: 141 (1-Year), 102 (3-Year), 87(5-Year), 70 (10-Year). Japan Stock: 51 (1-Year), 34 (3-Year), 33 (5-Year), 15 (10-Year).

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For definitions of terms in the chart, visit our [glossary](#). First, in every instance, WisdomTree's international dividend-weighted Indexes beat their comparable cap-weighted peers over the past decade. WisdomTree's broadest Index, the [WisdomTree International Equity Index](#), outperformed the MSCI EAFE Index by 76 [basis point \(bps\)](#) on an annualized basis over the last decade. Both the [WisdomTree International Equity Index](#) and the [WisdomTree International High Dividend Index](#) beat their cap-weighted benchmark in each and every period displayed. After fees, expenses and transactions costs, five of WisdomTree's seven developed-world ETFs generated higher returns over the past 10 years than did their comparable cap-weighted benchmark. Similar to what we saw in the U.S., the highest absolute performance for the 10-year period came in the smaller-size segment of the market. The [WisdomTree Europe SmallCap Dividend Fund \(DFE\)](#) averaged 4.4% on an annualized basis over the decade, while the [WisdomTree International SmallCap Dividend Fund \(DLS\)](#) averaged 4.3%. And over the past 10 years, the [WisdomTree International Equity Fund \(DWM\)](#), DLS and DFE all outperformed more than 90% of their peer groups. The other interesting takeaway from examining these seven Funds is how important the dividend portion was to the total returns of the Funds. In the large-cap portion of the developed world, where price returns were negative, *dividends paid were responsible for all of the gains over the period*. [Deconstruction of Total Return, WisdomTree International Dividend-Weighted ETFs vs. Cap-Weighted Indexes, June 16, 2006 – June 30, 2016](#)

Conclusion At a time when many investors are flocking to dividend-paying stocks for a variety of reasons—because they want [yield](#), or because they want lower-[correlating](#) stocks or stocks that have exhibited strong recent price momentum—it is worth noting that there is another way to use dividend-paying stocks in one's portfolio. As we have shown, over longer-term holding periods, owning the dividend-paying portion of the market can return more dividend income to investors *and* generate higher total returns than comparable cap-weighted indexes. With WisdomTree, because we typically select companies based on their market cap and then weight by the dividends they pay, investors can use dividend-weighted ETFs in the core of their portfolios to gain broad access to asset classes around the world as part of globally diversified portfolios.

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DEFINITIONS

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

Market capitalization-weighting: Market cap = share prices x number of shares outstanding. Firms with the highest values receive the highest weights in approaches designed to weight firms by market cap.

MSCI EAFE Index: is a market cap-weighted index composed of companies representative of the developed market structure of developed countries in Europe, Australasia and Japan.

Sovereign Debt: Bonds issued by a national government in a foreign currency, in order to finance the issuing country's growth.

Hedge: Making an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as a futures contract.

Basis point: 1/100th of 1 percent.

Yield: The income return on an investment. Refers to the interest or dividends received from a security that is typically expressed annually as a percentage of the market or face value.

Correlation: Statistical measure of how two sets of returns move in relation to each other. Correlation coefficients range from -1 to 1. A correlation of 1 means the two subjects of analysis move in lockstep with each other. A correlation of -1 means the two subjects of analysis have moved in exactly the opposite direction.