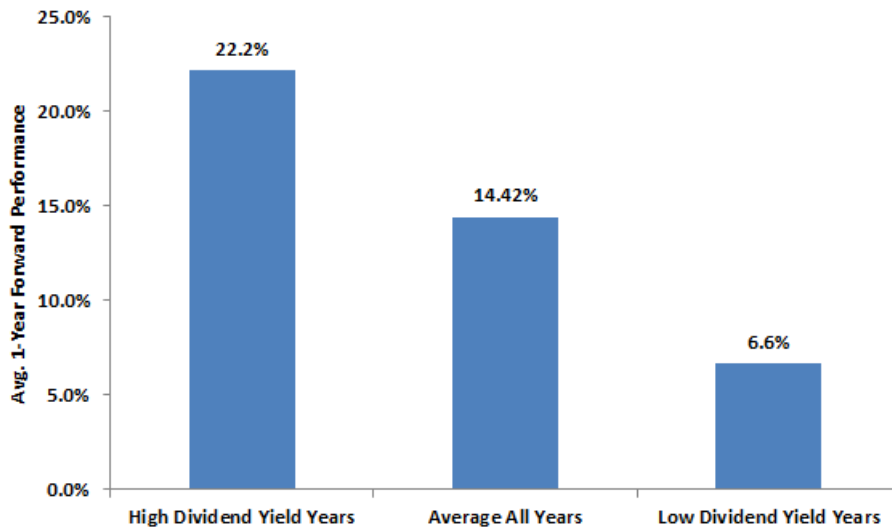

WHERE WE SEE OPPORTUNITY IN GERMAN EQUITIES

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10/23/2013

As the economy in the [European Monetary Union](#) has improved, the [MSCI Germany Index](#) (“German Equities”) has delivered relatively strong returns for the first three quarters of 2013—almost 17%. While this hasn’t quite matched the pace of the [S&P 500 Index](#), it has outperformed the [MSCI EAFE Index](#) for this period.¹ Of course, the real question regards what the current valuations suggest are the prospects for German Equities going forward. Our research says that German Equities are reasonably priced and attractive based on the historical patterns. **Evaluating the Historical Context** German Equities have a history going back to December of 1969 and encompassing a variety of market environments. Our goal is, therefore, to construct a framework allowing us to analyze the valuation levels of German Equities over a period of approximately 42 years. While one can never know future performance with certainty, we believe that it is useful to examine [valuation](#) levels and how they have coincided with past returns. **Year-End Dividend Yield as a Potential Valuation Indicator** We believe that the dividend yield for German Equities is an important indicator of their valuation. In fact, as of September 30, 2013, more than 97% of the [market capitalization](#) of these stocks had paid at least one dividend over the prior 12 months, indicating that dividend payers make up a large majority of the market.² With respect to comparisons to its own historical levels, our research shows that the starting [trailing 12-month dividend yield](#) for German Equities at the beginning of a calendar year had a strong relationship to the subsequent performance over the next 12-month period. We divided the 42 full years of index data into two baskets sorted by the trailing 12-month dividend yield as of December 31 of each year: • “High Dividend Yield Years”: Years in which the starting trailing 12-month dividend yield was above the median trailing 12-month dividend yield for German Equities. • Median Breakpoint: The median trailing 12-month dividend yield was 2.51%. • “Low Dividend Yield Years”: Years in which the starting trailing 12-month dividend yield was below the median trailing 12-month dividend yield for German Equities.

Analysis of German Equity Performance Following High and Low Dividend Yield Years

(12/31/1970–12/31/2012)



Sources: MSCI, WisdomTree. Past performance is not indicative of future results. You cannot invest directly in an index. 1-year forward performance refers to the cumulative performance occurring over the one year following different year-end dividend yields. Year-end dividend yields are trailing 12-month dividend yields observed on 12/31 of each calendar year for each of the 42 years from 12/31/1970 to 12/31/2012. The one year forward performance for the 12/31/1970 trailing 12-month dividend yield observation is the cumulative performance of the MSCI Emerging Markets Index from 12/31/1970 to 12/31/1971. Each subsequent period of the 42 total periods is calculated analogously.

• **In the High Dividend Yield Year Range:** As of September 30, 2013, German Equities exhibited a trailing 12-month dividend yield of 2.98%, which is above the median dividend yield of our analysis. • **Significant Dispersion from High to Low:** We've certainly pointed to this analysis for other equity markets before. The three bars in this figure make the point that valuation is quite important for German Equities. On average, the returns of High Dividend Yield Years eclipsed those of Low Dividend Yield Years by more than 15%. This suggests that as far as timing goes, it was better from a returns perspective to start during a high dividend yield period such as we see in today's environment. **But What about Price-to-Earnings (P/E) Ratios?** Trailing 12-month dividend yield is merely one way to look at the valuation picture for German Equities. Some also look at P/E ratios. We have P/E data extending back to January 1995. From January 1, 1995, to September 30, 2013, the median P/E ratio for German Equities was approximately 13.7x³. As of September 30, 2013, the P/E ratio was indicated to be 13.8x—very much in line with its median⁴. **Conclusion** our historical valuation work—based primarily around the dividend yield indicator—showed that German Equities performed well following high dividend yield periods. The current levels are indicative of such a period, leading us to conclude that German Equities appear attractively priced based on historical levels.
¹Source: WisdomTree, MSCI ²Source: WisdomTree, Bloomberg ³Source: Bloomberg, WisdomTree
⁴Source: Bloomberg, WisdomTree

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DEFINITIONS

European Monetary Union: 18 countries in Europe that use the Euro currenc.

MSCI Germany Index: Index weighted by float-adjusted market capitalization designed to measure the performance of the German equity market.

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.

Valuation: Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.

Dividend yield: A financial ratio that shows how much a company pays out in dividends each year relative to its share price.

Market Capitalization: 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.

Trailing 12-month dividend yield: Dividends over the prior 12-months are added together and divided by the current share price. Higher values indicate more dividends are being generated per unit of share price.