

# AS RARE AS THE LOCH NESS MONSTER, EQUITIES AT A 10 P/E

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“Nessie.” That’s the nickname for the lake-living, reclusive beast that has lured spellbound tourists to a fabled Scottish lake—Loch Ness—for decades. This raging stock market has gotten to such a point that you could be forgiven for thinking the Loch Ness Monster hoax is more believable than claims of spotting a low [P/E](#) equity basket these days.

By and large, there is not much you can do if you want a really low P/E in the U.S.—not with the [S&P 500 Index](#) loitering around 3,800, its [forward P/E](#) at 23.

To get there, you might consider turning to emerging markets (EM).

We have a couple of Funds that own a bunch of inexpensive stocks, the type of Funds you might own when you are decidedly [bullied](#) up on [value](#) relative to [growth](#).

Here are two of our deepest value ideas:

[DGS: The WisdomTree Emerging Markets SmallCap Dividend Fund](#)

[DEM: The WisdomTree Emerging Markets High Dividend Fund](#)

If you think 2021 will witness stocks with no dividends winning again, you don’t want these. But if you are scouring the landscape for companies with low multiples, these are the two Funds to investigate.

Note the [return on equity \(ROE\)](#) percentages in figure 1. Pretty good for EM value, right? Both DGS and DEM are higher on that measure than the [MSCI Emerging Markets Index](#), with notably lower P/Es. Additionally, the [dividend yields](#) are several percentage points higher than the 1.55% of the S&P 500.

Figure 1: DGS & DEM’s Valuations

Metric	S&P 500 Index	MSCI Emerging Markets Index	WisdomTree Emerging Markets Small Cap Dividend Fund (DGS)	WisdomTree Emerging Markets High Dividend Fund (DEM)
Price/Earnings (P/E)	31.1	22.5	10.6	9.3
Estimated Price/Earnings (P/E)	22.9	18.4	10.1	8.4
Return on Equity (ROE%)	12.6%	10.3%	11.2%	12.2%
Dividend Yield	1.55%	1.88%	4.30%	5.38%

Sources: WisdomTree, FactSet, as of 01/31/21. You cannot invest directly in an index.

Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and principal value of an investment will fluctuate so that an investor’s shares, when redeemed, may be worth more or less than their original cost.

Percentile Rank: a value closer to 100% indicates the P/E Ratio is high relative to history. A value closer to 0% indicates the P/E Ratio is low relative to history.

For Standardized Performance and SEC Yield of the Funds mentioned in the table please click their respective tickers: [DGS](#), [DEM](#).

Like your search for Nessie or Bigfoot, you could be looking for a long time if you expect to stumble upon big slugs of Tech or Consumer Discretionary in DGS or DEM. These are [reflation](#)-based Funds that are overweight Basic Materials and Real Estate (figure 2).

Figure 2: Sector weights

Sector	S&P 500 Index	MSCI Emerging Markets Index	WisdomTree Emerging Markets Small Cap Dividend Fund (DGS)	WisdomTree Emerging Markets High Dividend Fund (DEM)
Communication Services	10.7%	12.3%	3.0%	6.1%
Consumer Discretionary	12.9%	19.3%	10.1%	3.0%
Consumer Staples	6.2%	5.7%	8.2%	4.9%
Energy	2.4%	4.6%	1.5%	5.6%
Financials	10.3%	17.1%	13.6%	27.3%
Health Care	13.8%	4.7%	3.3%	0.3%
Industrials	8.1%	4.2%	13.6%	4.0%
Information Technology	27.8%	20.9%	17.0%	15.1%
Materials	2.6%	7.4%	12.5%	21.0%
Real Estate	2.5%	2.0%	8.5%	6.5%
Utilities	2.8%	1.9%	8.5%	6.2%
Other			0.1%	

Sources: WisdomTree, FactSet, as of 01/31/21. Subject to change. You cannot invest directly in an index.

Another thing: DGS and DEM are underweight China (figure 3).

Figure 3: China + Taiwan in DGS & DEM

Country Weights	MSCI Emerging Markets Index	WisdomTree Emerging Markets Small Cap Dividend Fund (DGS)	WisdomTree Emerging Markets High Dividend Fund (DEM)
China	39.4%	13.3%	17.2%
Taiwan	13.3%	25.4%	27.5%
Sum of China + Taiwan	52.8%	38.7%	44.7%
Other Nations	47.3%	61.3%	55.3%

Sources: WisdomTree, FactSet, as of 01/31/21. Subject to change. You cannot invest directly in an index.

If you are [bullish](#) on China relative to the rest of EM, then look away from DGS and DEM and toward something like the [WisdomTree Emerging Markets ex-State-Owned Enterprises Fund \(XSOE\)](#), which has more in that country.

For the rest of you, guess what, value hunters content with an underweight in China, guess what? Unlike Nessie, DGS and DEM do exist.

Finally, to reiterate a critical argument: look again at the ROEs in figure 1 on DGS and DEM. That profitability measure is a touch lower than the S&P 500 for both DGS and DEM, yet the two Funds trade at 10.1 and 8.4 times forward earnings, respectively. In 2021, those multiples could be about as rare as a Bigfoot sighting.

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## DEFINITIONS

**Price-to-earnings (P/E) ratio**: Share price divided by earnings per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested.

**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.

**Forward P/E ratio**: Share price divided by compilation of analyst estimates for earnings-per-share over the coming 12-month period. These are estimates that may be subject to revision or prove to be incorrect over time.

**Bullish**: a position that benefits when asset prices rise.

**Value**: Characterized by lower price levels relative to fundamentals, such as earnings or dividends. Prices are lower because investors are less certain of the performance of these fundamentals in the future. This term is also related to the Value Factor, which associates these stock characteristics with excess returns vs the market over time.

**Growth**: Characterized by higher price levels relative to fundamentals, such as dividends or earnings. Price levels are higher because investors are willing to pay more due to their expectations of future improvements in these fundamentals.

**Return on Equity (ROE)**: Measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

**MSCI Emerging Market Index**: The MSCI Em (Emerging Markets) Index is a free-float weighted equity index that captures large and mid cap representation across Emerging Markets (EM) countries.

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

**Reflation**: The term is used to describe the first phase of economic recovery after a period of contraction. This period is typically characterized by the act of stimulating the economy through accommodative central bank policies and reducing taxes, to bring growth and inflation back up to the long-term trend.

**Bullish**: a position that benefits when asset prices rise.