

MOST GREAT INVESTMENTS BEGIN IN DISCOMFORT: IS RUSSIA TURNING A CORNER?

Jeremy Schwartz – Global Chief Investment Officer
03/12/2015

I recently attended the Chartered Financial Analyst (CFA) Institute's annual forecast dinner in Denver, where the keynote, from a major asset manager, reviewed equity valuations across the world. He commented that there are not many equity regions that look particularly attractive compared to their histories, unless one is buying Russian energy companies. His remark generated a chuckle from the audience, showing deep skepticism about such a position today. But that's not the whole picture. The CFA Institute surveys its 120,000 global members annually; for 2015, the top four countries that members favored were the United States (by a large margin), China, India and Russia.¹ So, despite the skepticism, a number of strategists are still eyeing the depressed Russian market. **Steep Discounts** "Most great investments begin in discomfort. The things most people feel good about—investments where the underlying premise is widely accepted, the recent performance has been positive and the outlook is rosy—are unlikely to be available at bargain prices. Rather, bargains are usually found among things that are controversial, that people are pessimistic about and that have been performing badly of late." —Howard Marks, chairman, Oaktree Capital Management, *Renown Value Manager* Russia is currently selling at an extremely discounted [valuation](#). It is currently out of favor due to the huge collapse in oil prices—many of the large Russian companies are in the oil business—and as a result of the sanctions Russia is enduring over the political situation in Ukraine. When we evaluate the [median P/E ratios](#) of major equity regions over the last 20 years, the broad [MSCI Emerging Markets Index](#) is trading very close to its longer-run historical median P/E ratio. But Russia stands out, both for its low single-digit number and because it is selling at nearly a 50% discount to its historical median level. Of course, earnings may fall in the next year, given the collapse in oil prices, but even a 50% fall in earnings would leave Russia selling at a large discount to the rest of the emerging markets. **How Attractive Are Valuations**

Country/Region Index	20-Year Median P/E	1/31/2015 Trailing P/E	Discount	Year-to-Date Performance
MSCI Russia Index	6.6x	3.4x	-48.3%	24.8%
MSCI EAFE Index	22.2x	16.9x	-24.2%	3.7%
MSCI China Index	13.3x	10.2x	-23.1%	4.0%
MSCI Emerging Markets Index	13.1x	12.1x	-7.7%	3.3%
S&P 500 Index	17.8x	17.6x	-1.1%	2.1%

Sources: WisdomTree, Bloomberg as of 1/31/15, with performance data as of 2/13/15

MSCI Russia and China trailing P/E start in January 1996 and October 1995 respectively. Past performance is not indicative of future results. You cannot invest directly in an index.

in Russia?

For definitions of terms and indexes in the chart, please visit our [glossary](#). **Russia: Performance Standout of 2015** Russia has started off 2015 as a leader in global equity prices. Russia has led all emerging market countries in the first two months of the year.² Much of the rebound is from stabilization in the currency, which has rebounded

based on optimism over settlement talks and a fragile peace that is holding in the Ukraine. Companies or countries are very often attractively priced for very good reasons. Referring to Marks’s words, Russia is a place of discomfort for investors today. But some of the very best returns over the long run can be found from such dislocations in the market. What strategies are buying Russia today? **Emerging Market Strategy That Allocates to Value WisdomTree’s Emerging Markets Equity Income Fund (DEM)** tracks an **Index** that employs a rules-based process to allocate weight where it finds value every year—by selecting companies ranking in the highest 30% by **dividend yield** and setting weights according to the dividends that the companies pay. This strategy does not go with consensus opinion on a market; instead, it allocates to where prices are attractive relative to dividend payments. The strategy has a compelling long-term track record, beating 92% of its peer group since inception, but it has seen disappointing short-term performance, given the recent over-weight to Russia. That said, if the peace in Ukraine holds and oil prices begin to stabilize, DEM may prove to be one of more rewarding allocations among global equities. **DEM Beat 92% of the Active Mangers since Inception**

Ticker	Fund Name	Fund Inception Date	Morningstar Category	1-Year	3-Year	5-Year	Since Fund Inception
DEM	WisdomTree Emerging Markets Equity Income Fund	7/13/2007	Diversified Emerging Markets	4%	3%	39%	92%
Number of Managers				793	546	358	234

Source: 2015 Morningstar, Inc.

Past performance is not indicative of future results. Since inception refers to the period 8/1/07–12/31/14. Data as of 12/31/2014. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance, rankings and ratings are no guarantee of future results. The percent rank in category is the funds’ total-return percentile rank relative to all funds in the same Morningstar category and is subject to change each month. Regarding ranking of funds, 1 = best and 100 = worst. The rankings do not take into account the effects of sales charges.

Standardized

Ticker	Exp. Ratio	Inception Date	Average Annual Returns as of 12/31/2014				Market Price (%)				
			Total Return NAV (%)				Since Fund Inception				
1-Yr.	3-Yr.	5-Yr.	1-Yr.	3-Yr.	5-Yr.	1-Yr.	3-Yr.	5-Yr.	Since Fund Inception		
WisdomTree Emerging Markets Equity Income F	DEM	0.63%	7/13/2007	-11.59%	-1.64%	1.16%	1.88%	-13.20%	-2.39%	0.85%	1.29%
MSCI Emerging Markets Index				-2.19%	4.04%	1.78%	-0.05%	-2.19%	4.04%	1.78%	-0.05%

Source: WisdomTree

Since inception refers to the period 7/13/07–12/31/14.

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. Performance data for the most recent month-end is available at www.wisdomtree.com.

WisdomTree shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Total returns are calculated using the daily 4:00 p.m. EST net asset value (NAV). Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where Fund shares are listed. Market price returns do not represent the returns you would receive if you traded shares at other times.

You cannot invest directly in an index. 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.

Performance

¹Source: CFA Global Markets Sentiment Survey, CFA Institute, 2015. ²Sources: WisdomTree, MSCI, Bloomberg as of 2/20/15.

Important Risks Related to this Article



There are risks associated with investing, including possible loss of principal. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. Funds focusing on a single sector generally experience greater price volatility. Investments in emerging, offshore or frontier markets are generally less liquid and less efficient than investments in developed markets and are subject to additional risks, such as risks of adverse governmental regulation, intervention and political developments. Due to the investment strategy of this Fund, it may make higher capital gain distributions than other ETFs. 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

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.

MSCI Emerging Markets Index: a broad market cap-weighted Index showing performance of equities across 23 emerging market countries defined as “emerging markets” by MSCI.

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