
50 SHADES OF VALUE: IS VALUE BACK?

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The idea behind [value](#) investing is simple—less-expensive companies tend to outperform more-expensive companies in the long term. Investors have two main arguments why this investment style works: behavioral biases and [risk premiums](#). Most investors focus on stocks with a narrative about future growth, thus making already undervalued stocks less expensive than they should be. Value stocks should also compensate investors for higher levels of risk given their attractive [valuations](#). Despite these arguments, value as a factor has lagged the market over the last 10 years, but recent market activity is starting to point to a potential comeback in this investment style.

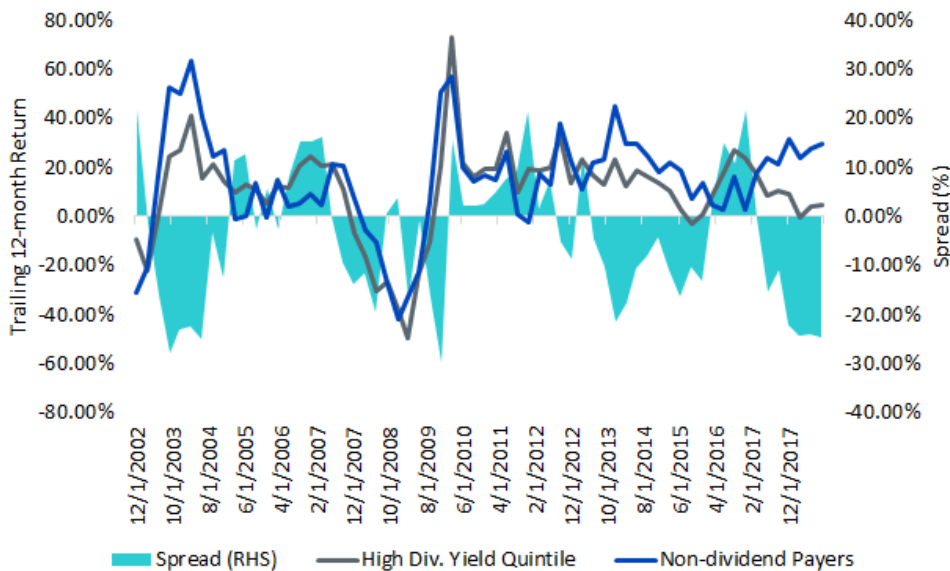
In Part I of this blog series, we wrote that [there are many ways of accessing value](#), and investors should be aware of those definitions because they will impact a strategy's exposures and returns. At WisdomTree, we have two ways of accessing value domestically: our [dividend](#)- and earnings-weighted Index families. Once a year, WisdomTree's dividend-weighted Indexes will weight dividend payers by their aggregate share of indicated dividends to be paid. Likewise, the earnings-weighted Indexes are reconstituted annually, weighting companies with positive earnings by their proportionate share of total aggregate earnings. We believe our dividend-weighted family represents a deeper cut of value because it removes zero-dividend-paying (growthier) stocks from the investment universe.

Dividend Payers Trailing, but Is the Trend Reversing?

Dividend payers have been under pressure since late 2016. As of the end of September 2018, the [MSCI USA Information Technology Index](#), generally constituted of non-dividend payers, had outperformed the dividend-heavy [MSCI USA Utilities Index](#) by more than 13% annually since December 30, 2016.¹ In fact, the spread in trailing 12-month returns between non-dividend payers and the highest [dividend-yielding quintile](#) within the [S&P 500 Index](#) reached its 10-year maximum at the end of this period. As can be seen in the chart below, the last two times this difference in returns hit such levels, in 2003 and 2009, there was a quick reversion to the mean.

S&P 500 Index: Highest Dividend Yields vs. Non-Dividend Payers

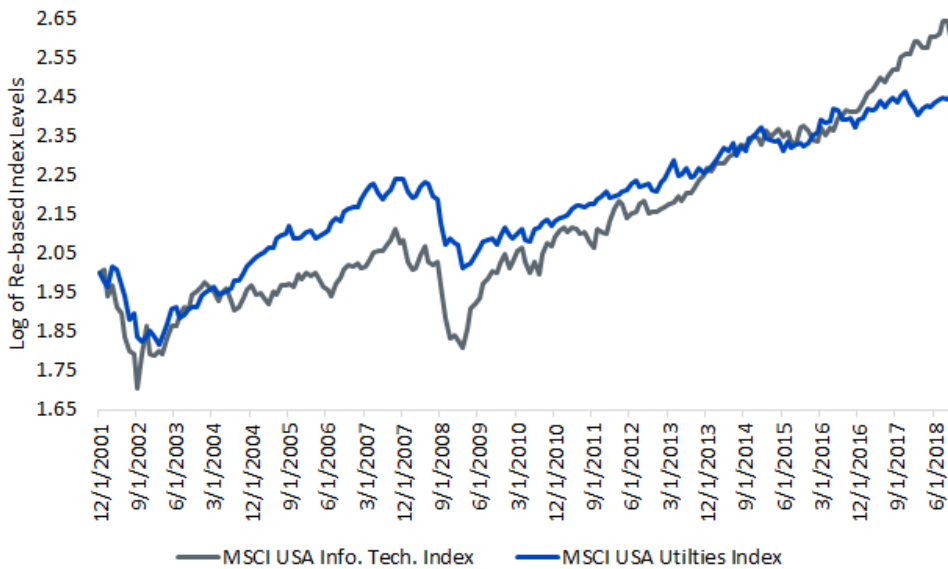
Trailing 12-Month Returns



Sources: WisdomTree, FactSet, for the period 12/31/02–9/30/18. Past performance is not indicative of future results. You cannot invest directly in an index.

During the second half of 2018 and more magnified in the recent market sell-off, we’ve seen defensive sectors commonly associated with the value factor begin to outperform the growth sectors in the market. In the chart below, we show the log of re-based index levels for the MSCI USA Utilities and Information Technology Indexes. This log chart allows us to visually compare the performance of both indexes over a given period by comparing the steepness in the lines. Comparing this chart to the one above, we can see that periods where non-dividend payers outperform the highest dividend-yielding quintile coincide with periods where the MSCI USA Information Technology Index outperforms the MSCI USA Utilities Index, having a steeper line. During October, the MSCI USA Utilities Index outperformed the MSCI USA Information Technology Index by almost 15%,² and we can see that this outperformance began a few months ago as the blue line has been getting steeper while the grey line inverts.

MSCI USA Utilities Index vs. MSCI USA Info. Tech. Index

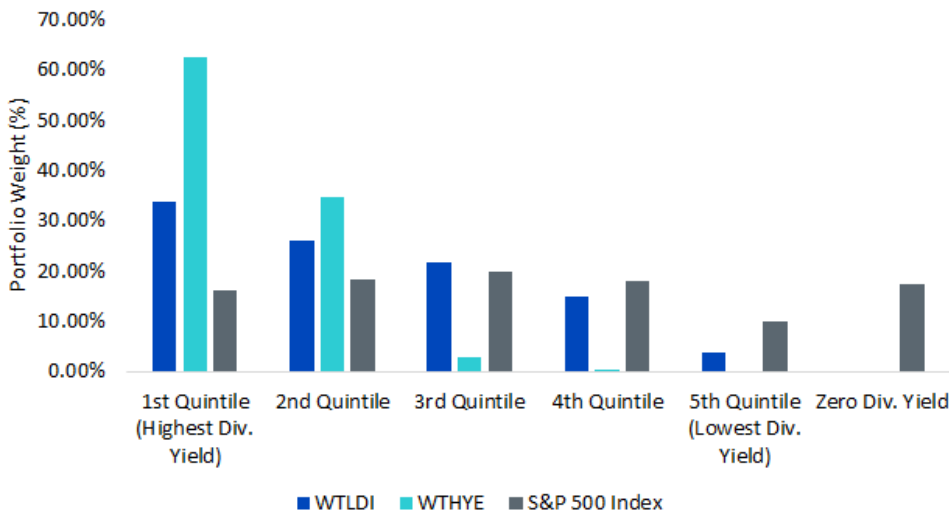


Sources: WisdomTree, FactSet, for the period 12/31/01–10/31/18. Past performance is no indicative of future results. You cannot invest directly in an index.

Gaining Exposure

If value is coming back and dividend-paying companies are on the verge of a significant rebound, strategies like WisdomTree’s dividend-weighted Indexes can help investors manage their U.S. allocation. As shown below, the [WisdomTree U.S. LargeCap Dividend Index \(WTLDI\)](#) and the [WisdomTree U.S. High Dividend Index \(WTHYE\)](#) are significantly overweight in the highest dividend-paying quintiles compared with the S&P 500 Index. WTLDI has a balanced tilt to value and can be considered as a core holding in a portfolio. It has provided downside protection in moments of market turmoil and has the potential of outperforming when value trends. On the other hand, WTHYE is a deeper-value index that tends to provide significant downside protection because it has over 50% of its weight in defensive sectors, but this interest-rate sensitivity can make it difficult to hold in a rate sell-off like the one we experienced in February. There are many shades of value, and being aware of the differences can ensure appropriate exposure.

Exposure to Dividend Payers



Sources: WisdomTree, FactSet, as of 10/31/18. Past performance is not indicative of futures results. You cannot invest directly in an index.

¹Source: Bloomberg, as of 9/28/18.

²Source: Bloomberg, as of 10/31/18.

For the top 10 holdings of DHS please visit the Fund's fund detail page at <https://www.wisdomtree.com/investments/etfs/equity/dhs>

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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](#).

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DEFINITIONS

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.

Risk premium: Equity investments are not risk free, but it is thought that investors buy stocks because the returns they expect are high enough to allow them to take the risk.

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: A portion of corporate profits paid out to shareholders.

MSCI USA Information Technology Index: A free float-adjusted market capitalization-weighted index designed to measure the performance of stocks within the Information Technology sector in the USA.

MSCI USA Utilities Index: A free float-adjusted market capitalization-weighted index designed to measure the performance of stocks within the Utilities sector in the USA.

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

Quintile: One of the class of values of a variate which divides the members of and batch or sample into equal-sized subgroups of adjacent values or a probability distribution into distributions of equal probability.

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.