

# wisdom

An introduction to  
WisdomTree Indexes & ETFs

The **dividends** of  
fundamentally weighted indexing

**designed** for  
performance potential

Great ideas attract  
**great minds**



WISDOMTREE<sup>SM</sup>

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**Investors should consider the investment objectives, risks, charges and expenses of the funds carefully before investing. A prospectus, containing this and other information, is available by calling 1-866-909-WISE (9473) or by visiting [www.wisdomtree.com](http://www.wisdomtree.com). Please read the prospectus carefully before you invest.**

**There are risks associated with investing, including possible loss of principal. Past performance does not guarantee future results. In addition to the normal risks of investing, international investments involve special risks, such as currency fluctuation or political uncertainty. Funds focusing on a single country, sector and/or smaller companies may experience greater price volatility.**

# WisdomTree moves indexing in a new direction

The trend that has seen assets move from actively-managed products to index-based strategies has been gaining momentum over the last 15 years. At WisdomTree, we believe this shifting of assets will continue, but with a twist: we expect a further transition from market cap-weighted indexes toward fundamentally weighted indexes.

## **A unique way to index**

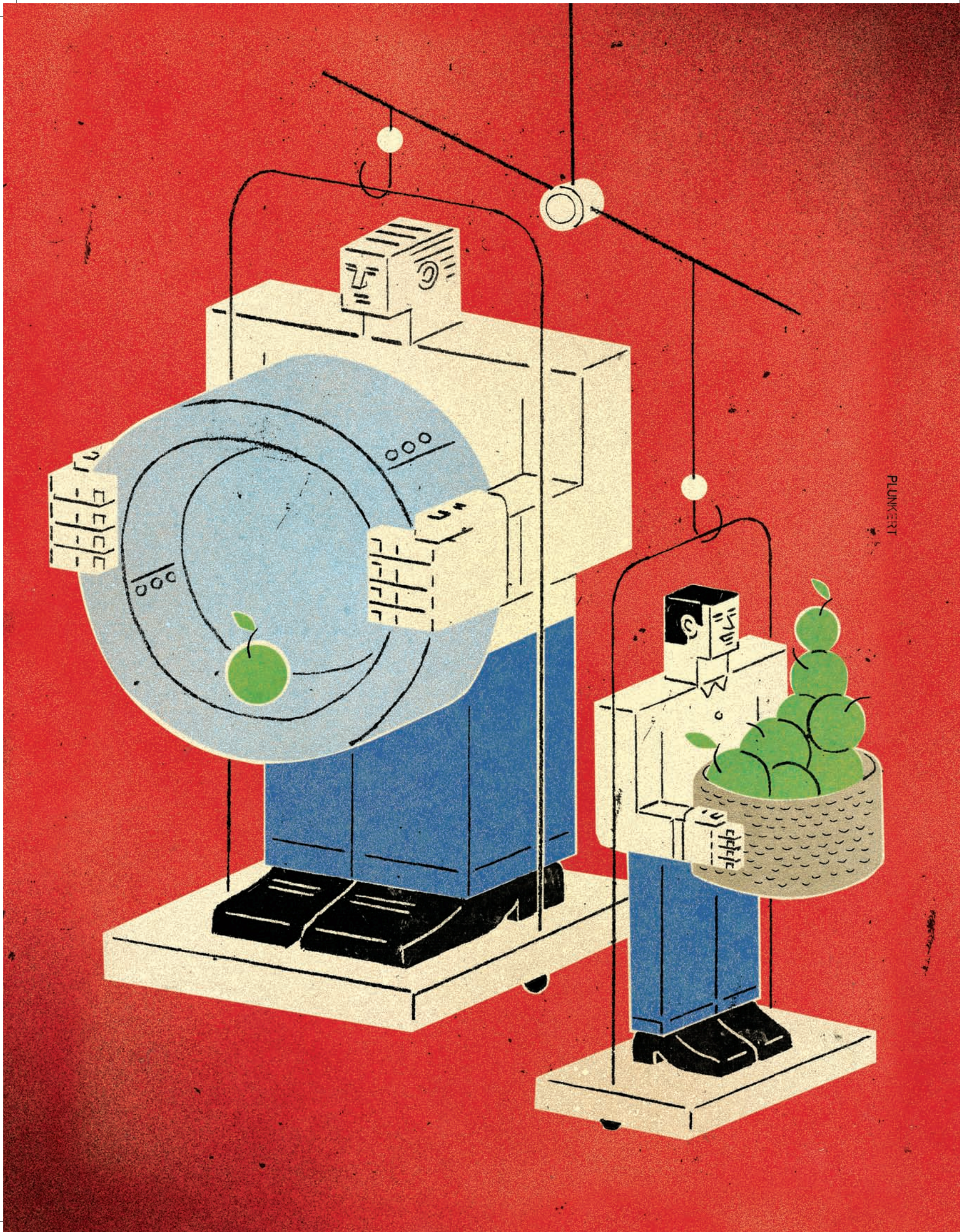
Our belief in the benefits of fundamentally weighted indexing led us to create a new family of stock indexes that define the dividend-paying segments of the U.S. and international markets. Our back tested research shows WisdomTree's fundamentally weighted dividend indexes generally would have outperformed comparable cap-weighted indexes, with less risk, during the long-term period tested. This unique indexing methodology has attracted a talented group of industry veterans to our Board, including Professor Jeremy Siegel of The Wharton School, and legendary investor Michael Steinhardt. While back testing has inherent limitations, and past performance does not guarantee future results, we believe we have found a better way to index.

## **Dividend-based investment solutions**

Our goal is to provide investors with a different type of simple, flexible, low-cost indexing solution. A full menu of exchange traded funds tracking our dividend-weighted indexes provides investors with a viable alternative to the cap-weighted index products dominating the market today. The result is the potential for more profitable long-term investing.

*Jonathan Steinberg*  
*Chief Executive Officer, WisdomTree Investments, Inc.*





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# The dividends of fundamentally weighted indexing

Consensus investment wisdom suggests that a stock's price is the best measure of its fair value. As a result, more than 90% of indexes weight each stock by market capitalization.

## **The trouble with market cap indexes**

Market cap-weighted indexes depend on the Efficient Market Hypothesis, which claims that the market price of a security is the best estimate of its true underlying value. The theory states that if markets are efficient, market cap-weighted indexes offer the highest potential return for any given level of risk and, conversely, the lowest risk for any given return. But the efficient market theory is just that—a theory. Our research indicates that stocks are not always priced efficiently.

**“From 1926 through 2004, reinvestment of dividends accounted for 96% of the stock market’s total return after inflation.”**

– Jeremy Siegel

Security prices can, and do, deviate from their true value for many reasons, including speculation by momentum traders, overreactions by investors based on rumors or inaccurate information, and sell decisions motivated by tax reasons or a simple need for cash. The technology and dot-com bubble of the late '90s is just the most recent example of what can happen when stocks become overvalued. Market history is filled with similar scenarios.

This brings up another potential drawback of market cap-weighted indexes: the “over/under” dilemma. Because market cap-weighted indexes generally provide more weight to stocks with the highest market capitalizations, we believe they tend to become *overweighted* in *overvalued* stocks and *underweighted* in *undervalued* stocks. Fundamentally weighted indexes are designed to avoid this issue.

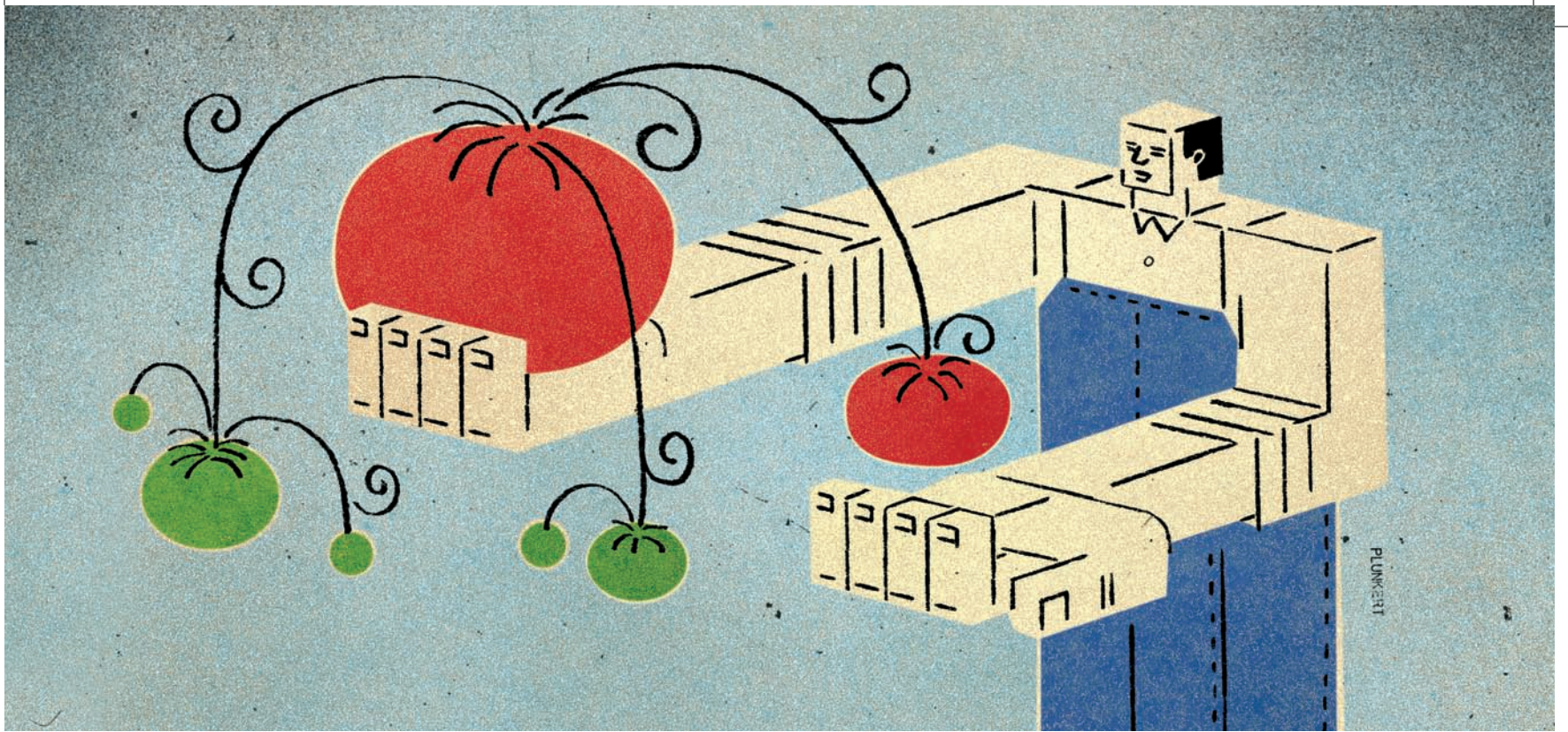
#### **Back to fundamentals**

In contrast to cap-weighted indexing, fundamentally weighted indexes anchor the initial weights of individual stocks to some metric of fundamental value. WisdomTree Investments studied this approach and determined that an effective metric is surprisingly simple: weighting stocks by the amount of cash dividends a company pays.

#### **Why dividends?**

We believe dividend-weighting is a compelling indexing approach for several reasons:

- From 1926 through 2004, reinvestment of dividends accounted for 96% of the stock market’s total return after inflation.<sup>1</sup>
- Dividends may offer more protection during bear markets because as stock prices fall, investors can buy more shares with reinvested dividends, a factor that affects long-term returns.
- Cash dividends provide an objective measure of a company’s value and profitability—one that cannot be manipulated by accounting schemes.
- Recent legislation lowering tax rates on qualifying dividends has helped make dividend-paying stocks more attractive to investors. (*Future changes in legislation or tax laws may adversely impact the payment and taxation of dividends.*)



### Playing by the rules

With the value of dividends clearly defined, WisdomTree Investments created a rules-based methodology and used the approach to develop a new family of fundamentally weighted dividend indexes covering all major market capitalizations, both domestically and internationally.

WisdomTree Indexes are made up exclusively of stocks that meet the WisdomTree criteria. Eligible stocks must:

- Pay a regular cash dividend
- Be ordinary common shares or shares of a REIT
- Have a market capitalization of at least \$100 million as of the annual index measurement date
- Have average daily dollar trading volume of \$100,000 or more over the three months preceding the annual index measurement date
- Be incorporated in the United States (no ADRs are included)<sup>2</sup>

The methodology weights securities in a manner that magnifies the effect dividends have on index performance. Our research indicates that this is an excellent way to exploit the inefficiencies of the markets and addresses the “over/under” problem suffered by cap-weighted indexes.

<sup>1</sup> *The Future for Investors*, Jeremy Siegel, 2005.

<sup>2</sup> Selection criteria and weighting methodology for the WisdomTree international dividend indexes is essentially the same as for the domestic indexes, with the following additional requirements. Non-U.S. companies must have paid at least \$5 million in cash dividends in the previous year. Non-U.S. securities need to have traded at least 250,000 shares per month for each of the six months prior to the annual index measurement date. WisdomTree’s international dividend indexes are weighted using annual cash dividends paid on shares of common stock, rather than projected dividends, as is the case for WisdomTree’s domestic indexes. For the complete and most currently updated index methodology, please visit [www.wisdomtree.com](http://www.wisdomtree.com).

<sup>3</sup> ETFs are subject to risks similar to those of stocks including those regarding short-selling and margin account maintenance.

### THE FIRST FAMILY OF FUNDAMENTALLY WEIGHTED DIVIDEND ETFs<sup>3</sup>

WisdomTree offers the broadest family of fundamentally weighted dividend ETFs that cover:

- Major market capitalizations, including domestic and international large-, mid- and small-cap
- Important global regions, including the U.S., Europe and Asia
- Diverse international market sectors, including financials, utilities, industrials and energy
- The WisdomTree ETFs are registered with the SEC as an open-end investment company

# Designed

## for performance potential

WisdomTree analysts, led by Jeremy Siegel, The Russell E. Palmer Professor of Finance at The Wharton School of the University of Pennsylvania, conducted exhaustive back testing of the principal WisdomTree Indexes. The research supports our belief in the wisdom behind fundamentally weighted indexing.

### **Testing methodology**

Comparisons between WisdomTree indexes and comparable market cap-weighted indexes were made as far back as 1980 domestically and 1996 internationally.

1980 was selected as the starting point for comparisons against the major domestic market cap-weighted indexes because this was as far back as return data for some of the domestic benchmark indexes was available when the research was conducted.

Likewise, 1996 was selected for comparisons against international market cap-weighted indexes because WisdomTree believes this was the most recent ten-year period for which reliable price data was available for securities included in the international indexes when the research was conducted.

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# Impressive performance across the board

The performance comparison results for the period from 1980-2005 were surprising. During the time period tested all WisdomTree domestic dividend indexes had higher annualized total returns than comparable market cap-weighted indexes.

For each domestic dividend index, the margin of outperformance was virtually identical to the difference in dividend yields. This means that the fundamentally weighted

dividend indexes provided an additional dividend yield with little or no loss of capital appreciation.

## Time after time

When compared against comparable market cap-weighted indexes for the standard 1, 5 and 10-year time periods, the WisdomTree Indexes again demonstrated impressive results both domestically and internationally.

### Annualized Total Returns of WisdomTree Domestic Indexes vs. Benchmark Indexes, 1980–2005

Market Segment	Index	Annualized Return
Total Market	WisdomTree Dividend Index	14.71%
	Dow Jones Wilshire 5000 Index	12.87%
Large Cap	WisdomTree LargeCap Dividend Index	14.34%
	S&P 500 Index	13.20%
Mid Cap	WisdomTree MidCap Dividend Index	16.00%
	Russell Midcap Index	14.70%
Small Cap	WisdomTree SmallCap Dividend Index	17.15%
	Russell 2000 Index	12.14%
Multi Cap High Yield	WisdomTree High-Yielding Equity Index	16.59%
	Russell 3000 Index	12.94%
Large Cap/High Yield	WisdomTree Dividend Top 100 Index	15.77%
	Russell 1000 Index	13.06%

### Annualized Total Returns of WisdomTree Domestic Indexes vs. Benchmark Indexes, as of March 31, 2006

Market Segment	Index	1-Year	5-Year	10-Year
Total Market	WisdomTree Dividend Index	11.28%	7.85%	11.58%
	Russell 3000 Index	14.28%	5.33%	9.19%
Multi Cap High Yield	WisdomTree High-Yielding Equity Index	11.98%	10.46%	14.02%
	Russell 3000 Value Index	14.20%	8.42%	11.15%

**Index returns are for illustrative purposes only and do not reflect actual WisdomTree Fund performance. Index performance data assumes reinvestment of dividends and does not reflect any management fees, transaction costs or other expenses. You cannot invest directly in an index. The performance of the WisdomTree Indexes is based on back testing, i.e., calculations of how an index might have performed in the past had it existed. Hypothetical back tested performance has inherent limitations and is not indicative of future results. Past performance does not guarantee future results. Certain index performance information utilizes data provided by CRSP<sup>®</sup>, Center for Research in Security Prices, Graduate School of Business, The University of Chicago.**

**Annualized Total Returns of WisdomTree Domestic Indexes vs. Benchmark Indexes, as of March 31, 2006 (continued)**

Market Segment	Index	1-Year	5-Year	10-Year
Large Cap	WisdomTree LargeCap Dividend Index	10.25%	6.02%	10.90%
	S&P 500 Index	11.72%	4.02%	8.98%
Large Cap High Yield	WisdomTree Dividend Top 100 Index	14.38%	11.17%	12.93%
	Russell 1000 Value Index	13.31%	7.79%	10.97%
Mid Cap	WisdomTree MidCap Dividend Index	15.81%	15.59%	14.36%
	Russell Midcap Index	21.54%	12.52%	12.66%
Small Cap	WisdomTree SmallCap Dividend Index	17.42%	20.12%	17.28%
	Russell 2000 Index	25.85%	12.59%	10.15%

**Annualized Total Returns of WisdomTree International Indexes vs. Benchmark Indexes as of March 31, 2006**

Market Segment	Index	1-Year	5-Year	10-Year
Total Market & Large Cap	WisdomTree DIEFA Index	22.11%	14.38%	12.36%
	WisdomTree International LargeCap Dividend Index	19.70%	11.42%	11.55%
	MSCI EAFE Index	24.94%	10.04%	6.83%
Multi Cap & Large Cap High Yield	WisdomTree DIEFA High-Yielding Equity Index	19.69%	17.86%	16.51%
	WisdomTree International Dividend Top 100 Index	22.16%	16.17%	15.64%
	MSCI EAFE Value Index	24.91%	12.16%	9.32%
Mid & Small Cap	WisdomTree International MidCap Dividend Index	28.35%	21.32%	14.38%
	WisdomTree International SmallCap Dividend Index	30.67%	26.78%	16.35%
	MSCI EAFE Small Cap Index	26.65%	17.01%	N/A
Total Market	WisdomTree Europe Dividend Index	20.58%	13.53%	13.79%
	MSCI Europe Index	21.22%	9.90%	10.49%
Small Cap	WisdomTree Europe SmallCap Dividend Index	32.02%	27.50%	19.24%
	MSCI Europe Small Cap Index	35.39%	21.40%	N/A
Multi Cap High Yield	WisdomTree Europe High-Yielding Equity Index	18.28%	18.11%	16.90%
	MSCI Europe Value Index	23.32%	12.44%	13.36%
Total Market	WisdomTree Japan Dividend Index	32.17%	12.07%	2.58%
	MSCI Japan Index	37.39%	8.00%	0.61%
Small Cap	WisdomTree Japan SmallCap Dividend Index	31.18%	20.28%	3.39%
	MSCI Japan Small Cap Index	35.81%	17.10%	N/A
Multi Cap High Yield	WisdomTree Japan High-Yielding Equity Index	30.96%	19.81%	4.84%
	MSCI Japan Value Index	32.62%	10.17%	2.96%
Total Market	WisdomTree Pacific ex-Japan Dividend Index	22.76%	20.88%	11.95%
	MSCI Pacific Rim ex-Japan Index	21.71%	17.64%	5.65%
Multi Cap High Yield	WisdomTree Pacific ex-Japan High-Yielding Equity Index	16.76%	23.07%	16.66%
	MSCI Pacific Rim ex-Japan Value Index	17.38%	15.38%	6.91%

NOTE: DIEFA = Dividend Index of Europe, Far East Asia, and Australasia.

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The WisdomTree Indexes began calculating in real time on June 1, 2006.

For current index performance, visit [wisdomtree.com](http://wisdomtree.com).

How do you know when an idea is truly great? Often, by the caliber of people who endorse it. The inclusion of two prominent industry veterans on the WisdomTree team indicates that great ideas do indeed attract great minds.



# Great Ideas

**The Professor: Jeremy Siegel,  
Senior Investment Strategy Advisor  
WisdomTree Investments**

As a distinguished finance professor, best selling author and sought-after financial commentator, Jeremy Siegel has long championed the benefits of indexing.

But following the severe stock market downturn in 2000, Siegel wanted to find an indexing strategy designed to prevent the kind of volatility caused by overvaluation in stocks. His subsequent research validated WisdomTree's fundamentally weighted indexing approach. Siegel was impressed enough with the results to join the firm.

**The Pioneer: Michael Steinhardt,  
Chairman, WisdomTree Investments**

Recognized by *The Wall Street Journal* as one of the greatest investors of all time, Michael Steinhardt is a legend in the hedge fund industry. One of the primary keys to his success is his ability to uncover and understand what other investors have either overlooked or taken for granted.

It was his penchant for beating benchmarks—often by taking a contrarian approach—that led him to embrace the WisdomTree fundamentally weighted indexing methodology. The results, as demonstrated in Siegel's testing, inspired Steinhardt to become a part of the WisdomTree team.

**attract great**

**talents**



Messrs. Siegel and Steinhardt are not involved in the day-to-day management of the WisdomTree Indexes or ETFs.

# Fundamentally weighted dividend ETFs

# Open

## new doors

There is no shortage of market cap-weighted indexes. However, fundamental weighting, and specifically, WisdomTree's dividend-weighting, has created a viable alternative for investors seeking to diversify into potentially better-performing index strategies.

WisdomTree ETFs cover all major market capitalizations both domestically and internationally and offer:

- The first international small-cap ETFs,
- The first international high-yielding ETFs,
- The first international sector ETFs.



**For more information, visit [wisdomtree.com](http://wisdomtree.com).**  
**Or call 1.866.909.WISE (9473).**



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