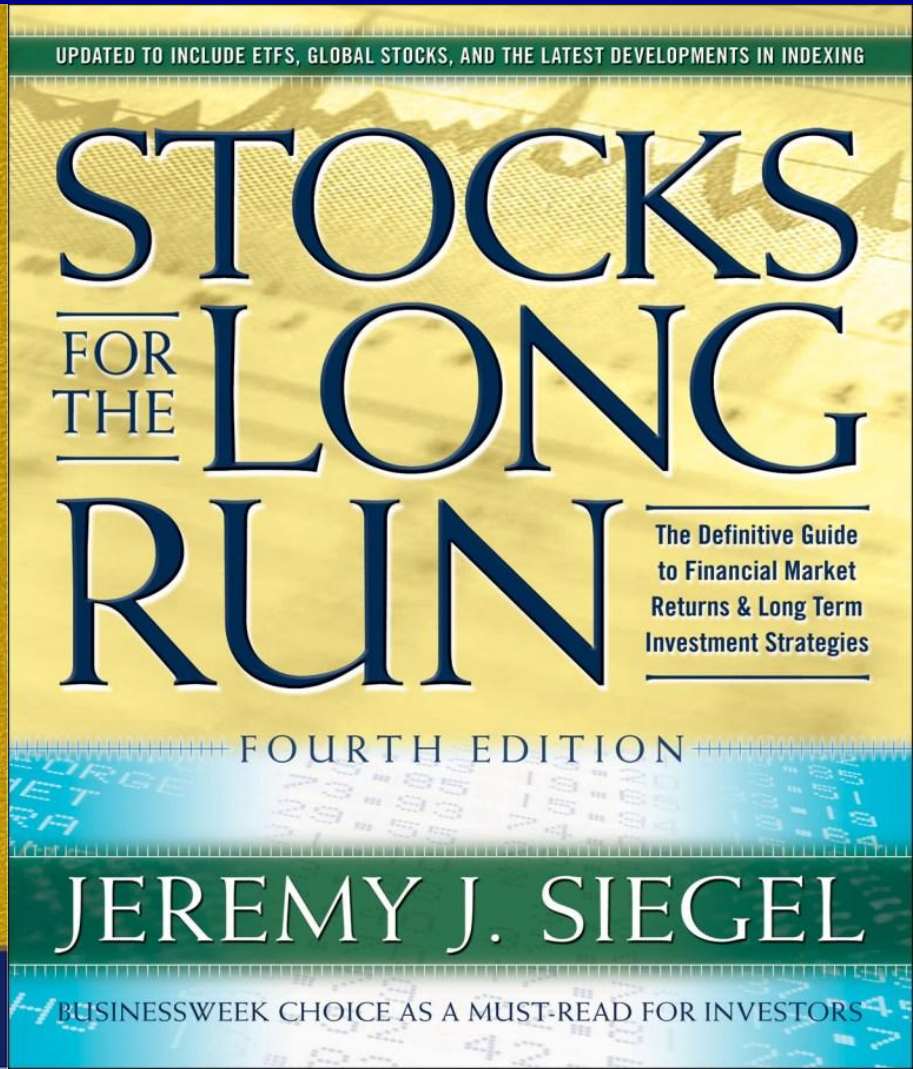
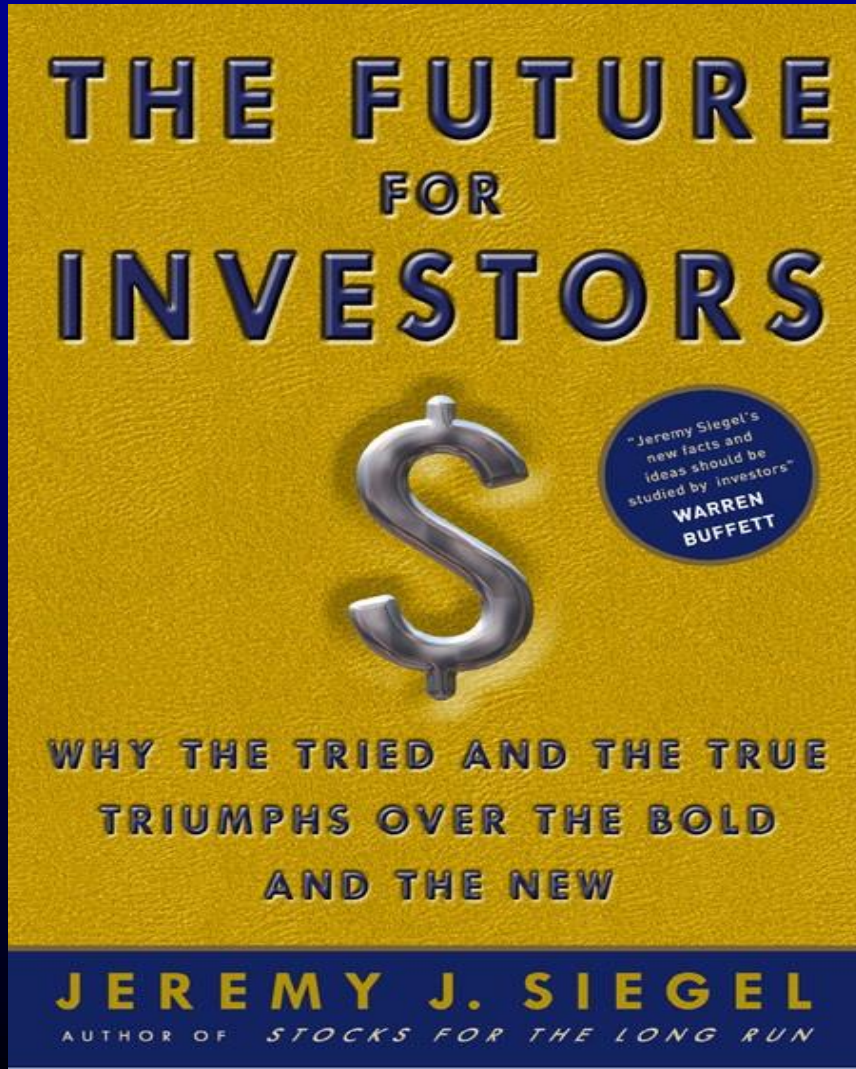


# What's Ahead for the Markets and the Economy?

Prof. Jeremy J. Siegel ~ The Wharton School

Financial Planning Association ~ June 12, 2012



# Important Information

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**This presentation represents the opinion of Jeremy Siegel and is not intended to be a forecast of future events, a guarantee of future results nor investment advice.**

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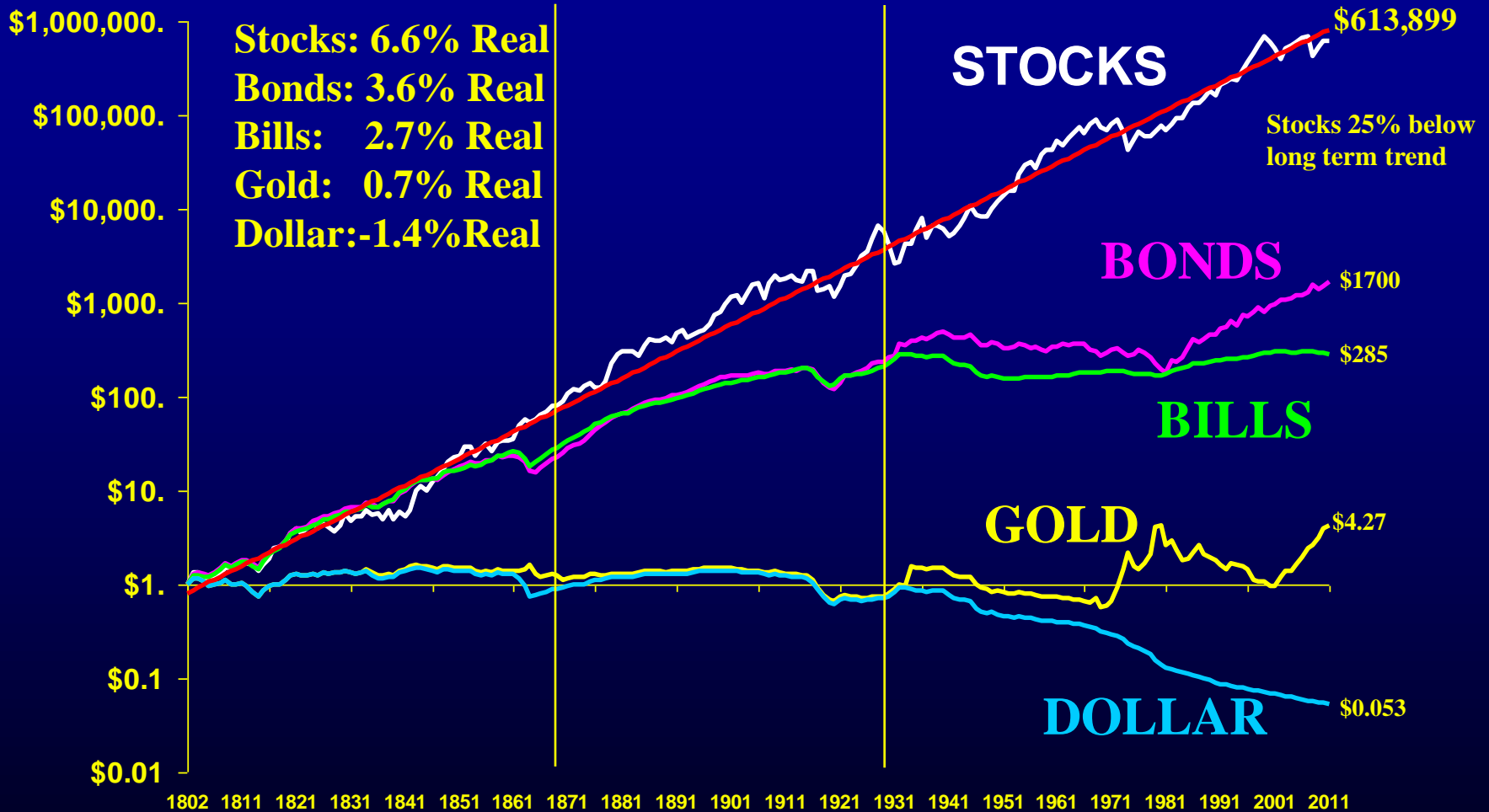
# Definition of major asset classes / indexes

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- The source data on the return series for the major asset classes can be found in Professor Siegel's book *Stocks for the Long Run, 4th edition*. Professor Siegel compiled his own proprietary indexes on each asset class and updates each data series from the book to reflect most recent periods.
- Stocks: The total returns after inflation on the broadest index of stocks available at the time. (Stocks-real-total return index: 1802-2011)
- Bonds: The total returns on an index on U.S. government bonds after inflation. (Bonds-real-total return index: 1802-2011)
- Bills: Total returns on U.S. Treasury Bills after inflation. (Bills-real-accumulative index: 1802-2011).
- Gold: The value of 1 dollar of gold bullion after inflation. (Gold-real-price index: 1802-2011)
- Dollar : The purchasing power of one US dollar. (Money: 1802-2011)
- 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.

# Total Real Return Indexes

January 1802 – December 2011



Source: Siegel, Jeremy, *Future for Investors* (2005), With Updates to 2011

Past performance is not indicative of future results.

# Annual Stock Market Returns

<u>Updated through December 2011</u>		<b>Real Returns</b>
<b>Long- Term</b>	<b>1802-2011</b>	<b>6.6%</b>
<b>Major Sub- Periods</b>	I 1802-1870	<b>6.7%</b>
	II 1871-1925	<b>6.7%</b>
	III 1926-2011	<b>6.4%</b>
<b>Post-War Periods</b>	<b>1946-2011</b>	<b>6.3%</b>
	1946-1965	<b>10.0%</b>
	1966-1981	<b>-0.4%</b>
	1982-1999	<b>13.6%</b>
	1992-2011	<b>5.5%</b>

Source: Siegel, Jeremy,  
*Stocks for the Long Run*  
(2008) with updates to 2011

# Annual Bond Market Returns

<u>Updated through December 2011</u>		<b>Real Returns</b>
<b>Long- Term</b>	<b>1802-2011</b>	<b>3.6%</b>
<b>Major Sub- Periods</b>	<b>I 1802-1870</b>	<b>4.8%</b>
	<b>II 1871-1925</b>	<b>3.7%</b>
	<b>III 1926-2011</b>	<b>2.6%</b>
<b>Post-War Periods</b>	<b>1946-2011</b>	<b>2.0%</b>
	<b>1946-1965</b>	<b>-1.3%</b>
	<b>1966-1981</b>	<b>-4.2%</b>
	<b>1982-1999</b>	<b>8.5%</b>
	<b>1992-2011</b>	<b>6.0%</b>

Source: Siegel, Jeremy,  
*Stocks for the Long Run*  
(2008) with updates to 2011

# Ten-Year TIPs Yield 1997-2012

GRAB Govt **GY**  
 TSY INFL IX N/B TII0  $\frac{1}{8}$  01/15/22 102-09 /102-15+ (-0.11 /13) BGN @17:00  
 GTII10 GOVT Save Chart Hide GY - Yield Chart Page 1/22  
 Range 01/31/97 - 03/16/12 Upper Mid Yield to Wo Mov. Avgs Currency USD  
 Period Weekly Lower None Mov. Avg Events

**Tips Yield should approximate GDP Growth**



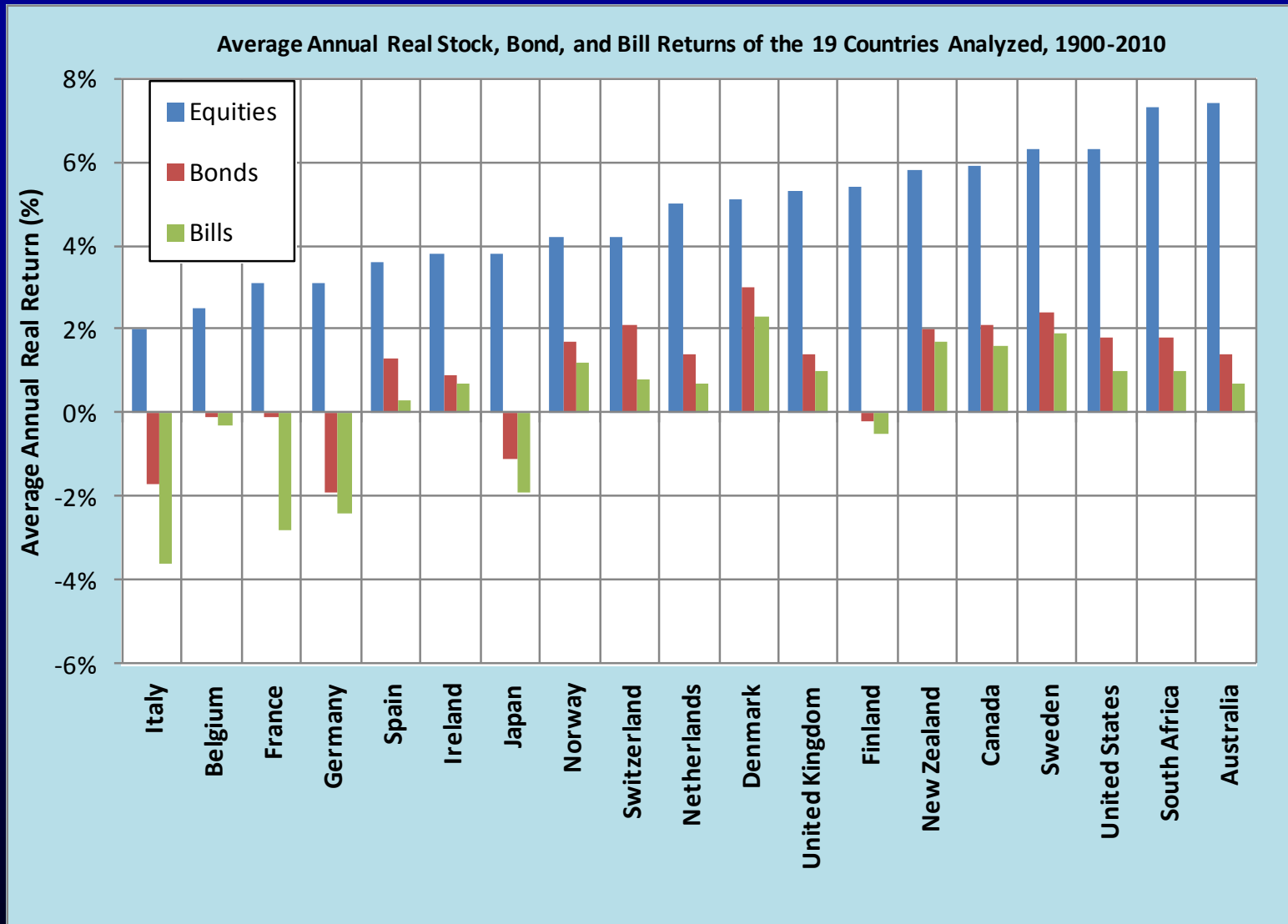
**June yield - 0.50%**

1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012  
 Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000  
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2012 Bloomberg Finance L.P.  
 SN 831730 G453-165-0 17-Mar-12 16:01:18 EDT GMT-4:00

Past performance is not indicative of future results.

Source: Bloomberg

# Worldwide Stock, Bond, and Bill Returns



Source: Source: Dimson, Marsh, Staunton, Triumph of the Optimists; authors' updates

Past Performance is no guarantee of future results



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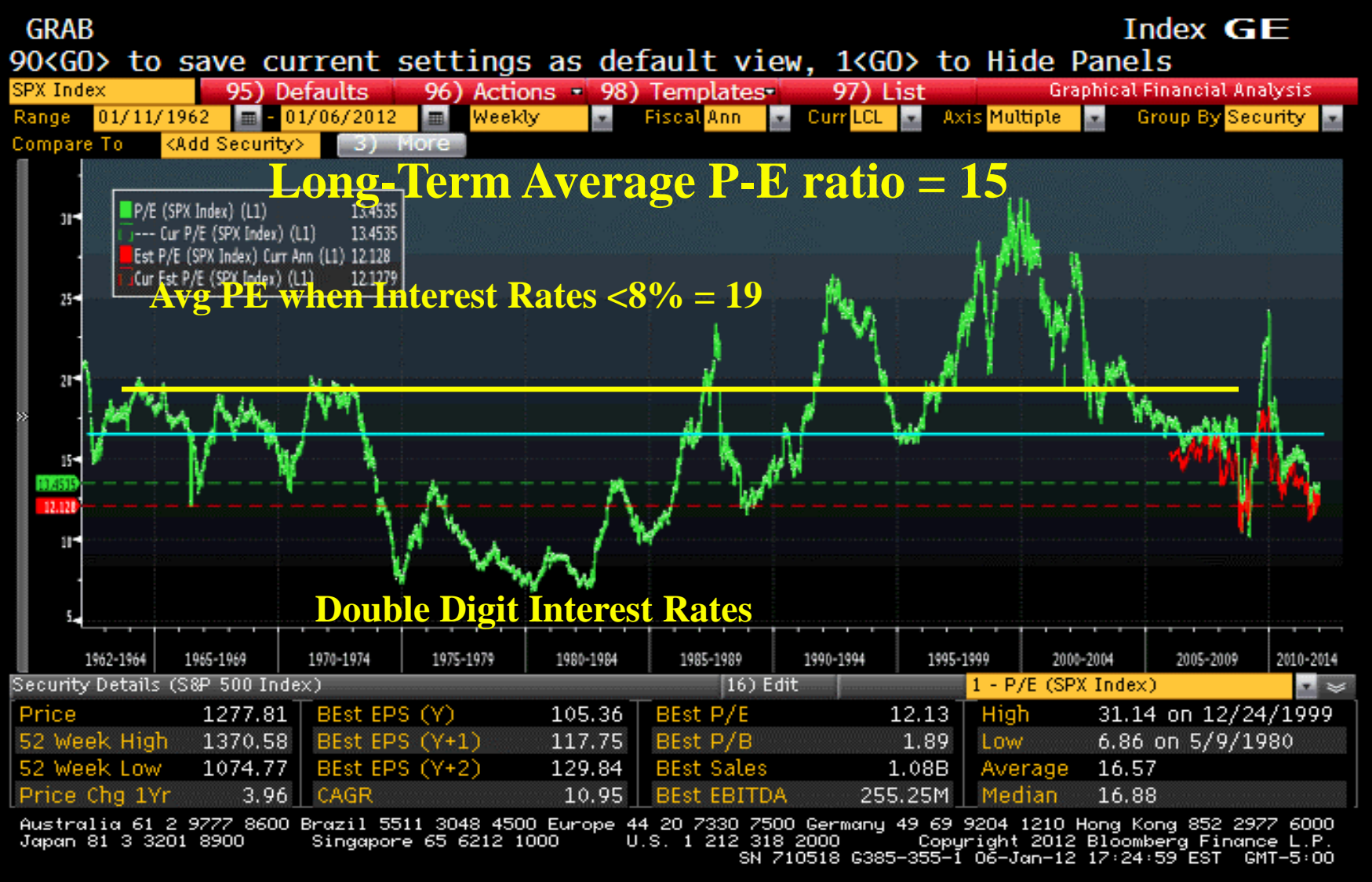
# Global Valuation

# Returns and Price / Earnings Ratio

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- ❑ Price/Earnings Ratio (or P/E ratio) is a valuation metric of stocks and relates how much one is paying for a stock or an index for each dollar of earnings for that stock or index.
- ❑ Earnings Yield, or  $1/\text{Price-Earnings (ratio, or E/P)}$  has been an excellent long-term predictor of **real** stock returns.
- ❑ Average P-E ratio in last 130 years of S&P 500 Index = 15; average earnings yield 6.7%.

# P-E Ratio on S&P 500, 1962-2011



# What is the S&P500 worth today?

---

- 2011 earnings for the S&P 500 came in at \$96.44. 2012 operating earnings are estimated at \$105.31. 2013 are estimated at \$119.34. At May 30 level of the S&P 500 of 1317, the market is selling at a Price to Earnings Ratio of 12.5 times 2012 earnings.
- In March 2011, estimate for 2011 earnings was \$96.19.
- At 15 times earnings, the S&P 500 is 1580; 20% above current levels, at 19 times earnings the S&P 500 is at 2000, 52% above the current levels.
- Current earnings yields projects a 8% real return, more than 8 percentage points over TIPS, and more than twice the historical average.
- *Earnings do not have to increase for stocks to dominate bonds.*

# World P-E Ratios

GRAB  
Enter 1,2,3 or number <Go> for a historical graph of the earnings.

**World Equity Index Ratios**

Measure 1 Price/Earnings

2011 2012 2013  
↓ ↓ ↓  
Equity WPE

Measure	Price/Earnings	Price	Net Chg	Price/Earnings	Curr Yr Est.	Nxt Yr Est.
<b>1) North/Latin America</b>						
4) INDU	DOW JONES INDUS.	12449.95	-130.74	12.58	11.81	10.72
5) SPX	S&P 500 INDEX	1317.70	-14.72	13.31	12.57	11.17
6) CCMP	NASDAQ COMPOSITE	2844.71	-26.28	15.49	15.25	12.75
7) SPTSX	S&P/TSX COMPOSIT	11480.23	-129.07	13.37	12.54	10.90
8) MEXBOL	MEXICO IPC INDEX	38023.06	-103.79	15.73	15.01	13.35
<b>2) Europe/Africa/Middle East</b>						
9) SX5E	Euro Stoxx 50 Pr	2116.18	-44.13	14.05	8.50	7.59
10) UKX	FTSE 100 INDEX	5297.28	-93.86	10.39	9.47	8.59
11) CAC	CAC 40 INDEX	3015.58	-69.12	9.94	9.00	8.07
12) DAX	DAX INDEX	6280.80	-116.04	13.58	9.49	8.39
13) IBEX	IBEX 35 INDEX	6090.40	-161.30	10.80	8.64	6.95
14) FTSEMIB	FTSE MIB INDEX	12872.58	-234.55	neg	7.89	6.76
15) AEX	AEX-Index	290.66	-4.61	10.54	8.94	7.90
16) SMI	SWISS MARKET IND	5902.82	-11.91	15.87	11.80	10.53
<b>3) Asia/Pacific</b>						
17) NKY	NIKKEI 225	8633.19	-23.89	20.88	12.96	11.92
18) HSI	HANG SENG INDEX	18690.22	-365.24	8.96	9.54	8.61
19) SHCOMP	SHANGHAI SE COMP	2384.67	-4.97	12.80	10.28	8.82
20) AS51	S&P/ASX 200 INDE	4094.23	-20.18	13.81	11.96	10.52
21) FSSTI	FTSE STRAITS TIM	2783.95	-17.90	9.11	12.80	11.42

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000  
Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2012 Bloomberg Finance L.P.  
SN 831730 6453-346-0 30-May-12 14:18:58 EDT GMT-4:00

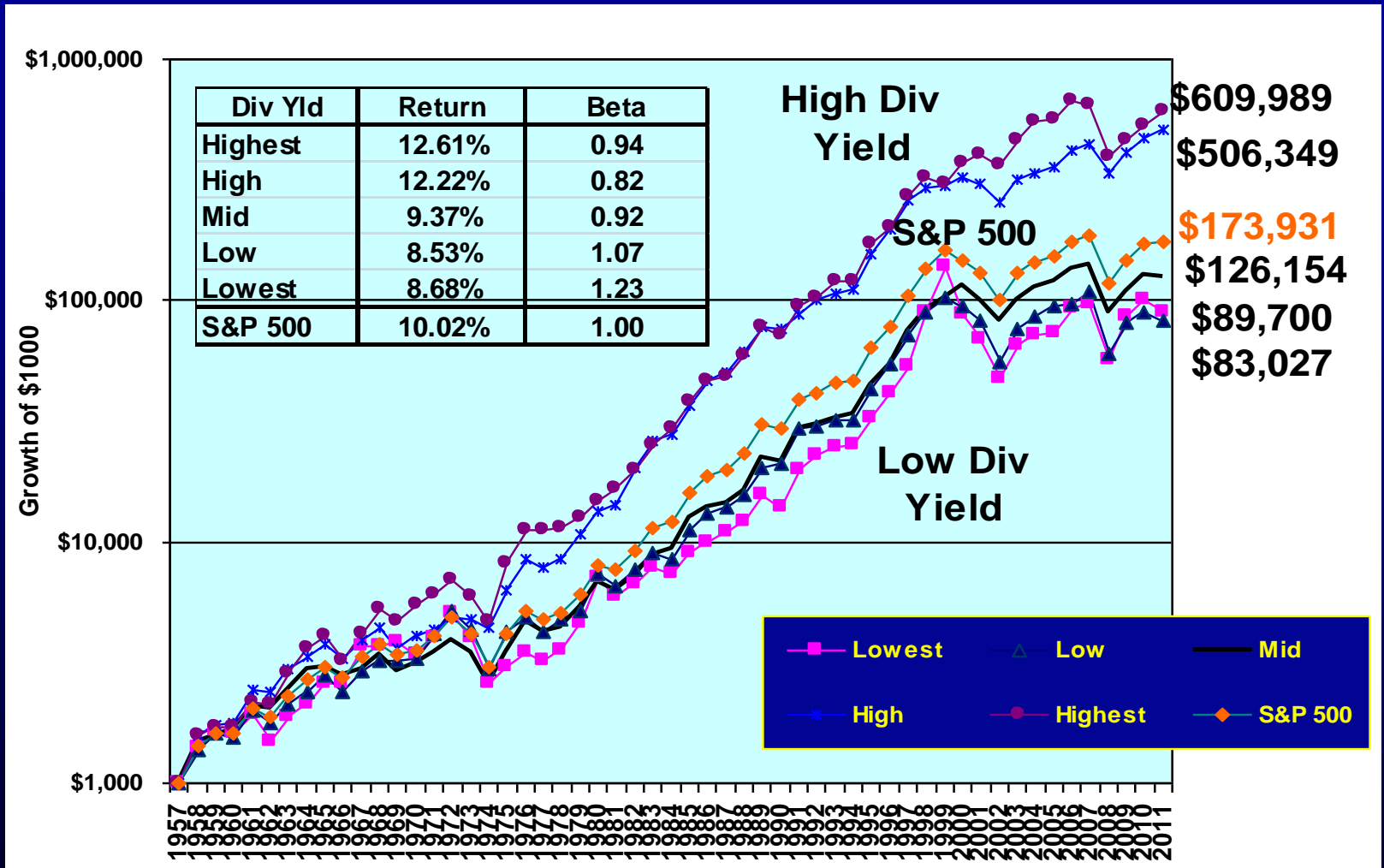
Source: Bloomberg

Past performance is not indicative of future results.

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**Value Stocks**  
**Have Historically Paid**  
*Dividends*  
**Over the Long Run**

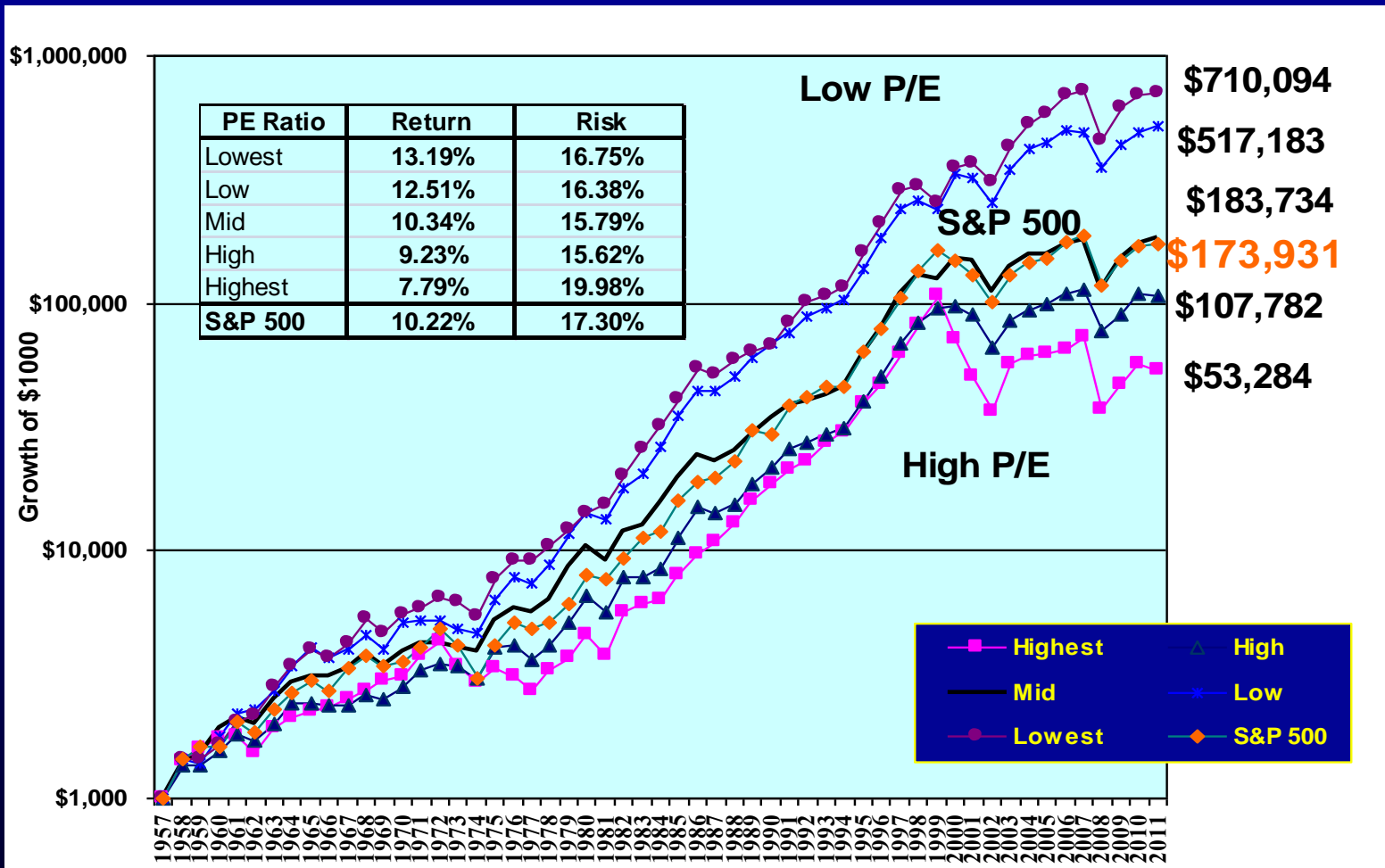
# Dividend Yield and Relative Performance, 1957-2011



Source: Siegel, Jeremy, *Future for Investors* (2005), With Updates to 2011

Each stock in S&P 500 is ranked from highest to lowest by dividend yield on December 30<sup>st</sup> of every year and placed into “quintiles,” baskets of 100 stocks in each basket. The stocks in the quintiles are weighted by their market capitalization. The dividend yield is defined as each stock’s annual dividends per share divided by its stock price as of December 30<sup>st</sup> of that year.

# Price / Earnings Ratio and Relative Performance, 1957-2011



Source: Siegel, Jeremy, *Future for Investors* (2005), With Updates to 2011

Each stock in S&P 500 is ranked from lowest to highest by price to earnings ratio on December 30<sup>st</sup> of every year and placed into “quintiles,” baskets of 100 stocks in each basket. The stocks in the quintiles are weighted by their market capitalization. The price/ earnings ratio is defined as each stock’s net income per share divided by its stock price as of December 30<sup>st</sup> of that year.

Past performance does not guarantee future results.



# The “Lost Decade” 2000 through 2011

Annual S&P 500 Return + 0.57%

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## Annual Returns to **Dividend Yield** Quintiles

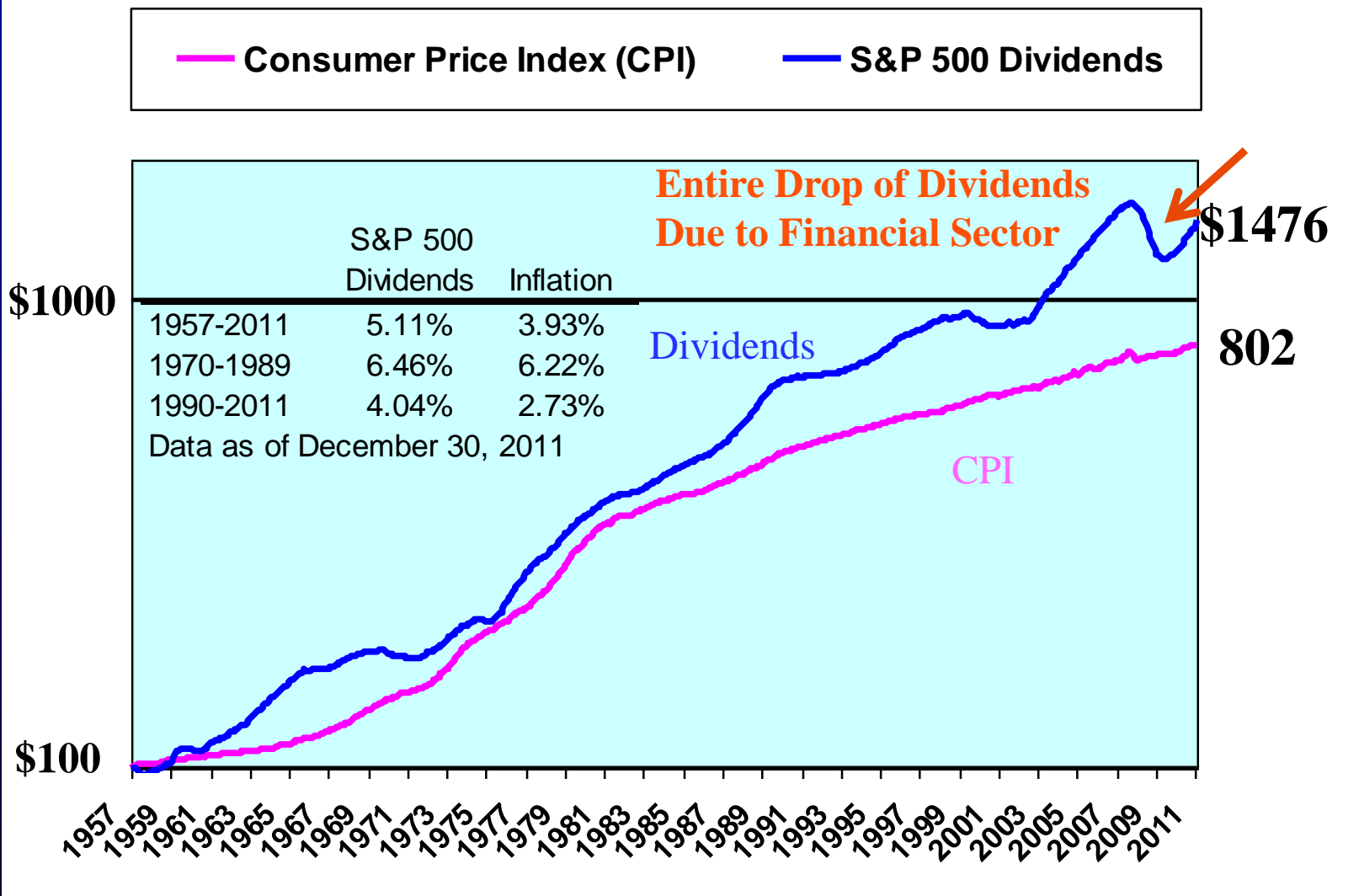
- **Lowest: -** -3.53%
- **Low** -1.73%
- **Mid** +1.73%
- **High** +4.52%
- **Highest** +5.90%

## Annual Returns to **Price-to-earnings** Quintiles

- **Highest** -5.68%
- **High** +0.98%
- **Mid** +3.24%
- **Low** +6.50%
- **Lowest** +8.91%

Source: Siegel, Jeremy, *Future for Investors* (2005), *With Updates to 2011*

# Dividend Income beat inflation



Data from December 30, 2011

Source: Bob Shiller, <http://www.econ.yale.edu/~shiller/data.htm>

# Top Ten Dividend Payers in US\*

Ticker	Name	Indicated Dividend	Dividend Yield	Consensus Earnings	Dividend Coverage Ratio	PE Ratio
T	AT&T Inc	\$1.76	5.2%	\$2.56	1.5x	13.2x
XOM	Exxon Mobil Corp	\$2.28	2.8%	\$8.85	3.9x	9.3x
MSFT	Microsoft	\$0.80	2.8%	\$3.05	3.8x	9.5x
GE	General Electric Co	\$0.68	3.5%	\$1.77	2.6x	10.8x
PFE	Pfizer Inc	\$0.88	4.0%	\$2.35	2.7x	9.4x
CVX	Chevron Corp	\$3.60	3.6%	\$13.41	3.7x	7.4x
JNJ	Johnson & Johnson	\$2.44	3.9%	\$5.45	2.2x	11.5x
VZ	Verizon Communications Inc	\$2.00	4.8%	\$2.80	1.4x	14.8x
PM	Phillip Morris International	\$3.08	3.6%	\$5.86	1.9x	14.6x
WMT	Wal-Mart Stores Inc	\$1.59	2.4%	\$5.35	3.4x	12.2x
<b>Average Top 10</b>			<b>3.7%</b>		<b>2.7x</b>	<b>11.3x</b>
<b>S&amp;P 500</b>			<b>2.3%</b>		<b>3.5x</b>	<b>12.6x</b>
<b>WisdomTree Dividend Index</b>			<b>3.4%</b>		<b>2.3x</b>	<b>12.7x</b>

Source: WisdomTree, Bloomberg, Data as of March 24, 2012

\* Defined as the ten largest weighted stocks in the WisdomTree Dividend Index, as of December 30, 2011

- Indicated Dividend defined as the latest declared dividend, annualized
- Consensus Earnings are the Bloomberg calculated earnings per share for the current calendar year
- Dividend Coverage Ratio is calculated as the Consensus Earnings / Current Indicated Dividend Per Share
- P/E ratio is calculated as Share Price / Consensus Earnings

Past performance is not indicative of future results.

# Top 10 International Dividend Payers\*

Ticker	Name	Country	Trailing 12-Month Dividend	Dividend Yield	Consensus Earnings	Dividend Coverage Ratio	PE Ratio
941 HK	China Mobile	Hong Kong	\$3.33	4.2%	\$7.82	2.4x	10.2x
VOD LN	Vodafone Group PLC	Britain	\$10.58	6.1%	\$16.30	1.5x	10.6x
NESN VX	Nestle SA	Switzerland	\$1.95	3.6%	\$3.32	1.7x	16.5x
GSK LN	GlaxoSmithKline PLC	Britain	\$75.56	5.3%	\$123.10	1.6x	11.5x
CBA AU	Commonwealth Bank of Australia	Australia	\$4.64	9.5%	\$4.42	1.0x	11.0x
FP FP	Total SA	France	\$2.28	6.5%	\$5.38	2.4x	6.5x
HSBA LN	HSBC Holdings PLC	Britain	\$25.09	4.9%	\$58.87	2.3x	8.7x
WBC AU	Westpac Banking Corp	Australia	\$2.31	11.5%	\$2.04	.9x	9.9x
NOVN VX	Novartis AG	Switzerland	\$2.25	4.5%	\$5.23	2.3x	9.5x
TLS AU	Telstra Corp	Australia	\$0.40	11.3%	\$0.29	.7x	12.4x
<b>Average Top 10</b>				<b>6.7%</b>		<b>1.7x</b>	<b>10.7x</b>
<b>MSCI EAFE Index</b>				<b>4.2%</b>		<b>2.2x</b>	<b>10.6x</b>
<b>WisdomTree DEFA Index</b>				<b>5.2%</b>		<b>1.9x</b>	<b>10.4x</b>

Source: WisdomTree, Bloomberg, Data as of March 24, 2012

\* Defined as the ten largest weighted stocks in the WisdomTree DEFA Index, as of December 30, 2011

-Trailing 12-Months Dividend for international stocks defined as dividends paid over last year.

-Consensus Earnings are the Bloomberg calculated earnings per share for the current calendar year

-Dividend Coverage Ratio is calculated as the Consensus Earnings / Current Trailing 12-month Dividend Per Share

-P/E ratio is calculated as Share Price / Consensus Earnings

Past performance is not indicative of future results.

# 10 Largest High Dividend Emerging Market Stocks\*

Ticker	Name	Country	Trailing 12-Month Dividend	Dividend Yield	Consensus Earnings	Dividend Coverage Ratio	PE Ratio	Long Term Earnings Growth
2330 TT	Taiwan Semiconductor Mfg	Taiwan	\$3.00	3.7%	\$6.23	2.1x	12.8x	9.3%
AMBV3 BS	Cia Bebidas das Americas	Brazil	\$1.89	3.1%	\$3.24	1.7x	18.9x	10.8%
MAY MK	Malayan Banking Bhd	Malaysia	\$0.68	8.0%	\$0.66	1.0x	12.9x	0.1%
SANB11 BS	Banco Santander Brasil SA	Brazil	\$0.78	5.0%	\$1.73	2.2x	9.1x	19.6%
BBAS3 BS	Banco do Brasil	Brazil	\$1.67	8.0%	\$3.93	2.4x	5.3x	5.1%
KIO SJ	Kumba Iron Ore Ltd	South Africa	\$4,420.00	8.6%	\$5,340.70	1.2x	9.6x	-5.8%
CIEL3 BS	Cielso SA	Brazil	\$1.88	3.6%	\$3.32	1.8x	15.8x	10.4%
3988 HK	Bank of China H	China	\$0.18	6.1%	\$0.58	3.3x	4.9x	8.3%
2412 TT	Chunghwa Telecom Co Ltd	Taiwan	\$5.52	6.1%	\$5.41	1.0x	16.8x	NA
ADVANC TB	Advanced Info Service PCL	Thailand	\$8.43	4.6%	\$11.39	1.4x	16.0x	9.4%
<b>Average Top 10</b>				<b>5.7%</b>		<b>1.8x</b>	<b>12.2x</b>	<b>7.5%</b>
<b>MSCI Emerging Markets Index</b>				<b>3.3%</b>		<b>3.1x</b>	<b>9.7x</b>	
<b>WisdomTree Emerging Markets Equity Income Index</b>				<b>5.5%</b>		<b>1.6x</b>	<b>11.3x</b>	

Source: WisdomTree, Bloomberg, Data as of March 24, 2012

\* Defined as the ten largest weighted stocks in the WisdomTree Emerging Markets Equity Income Index, as of December 30, 2011

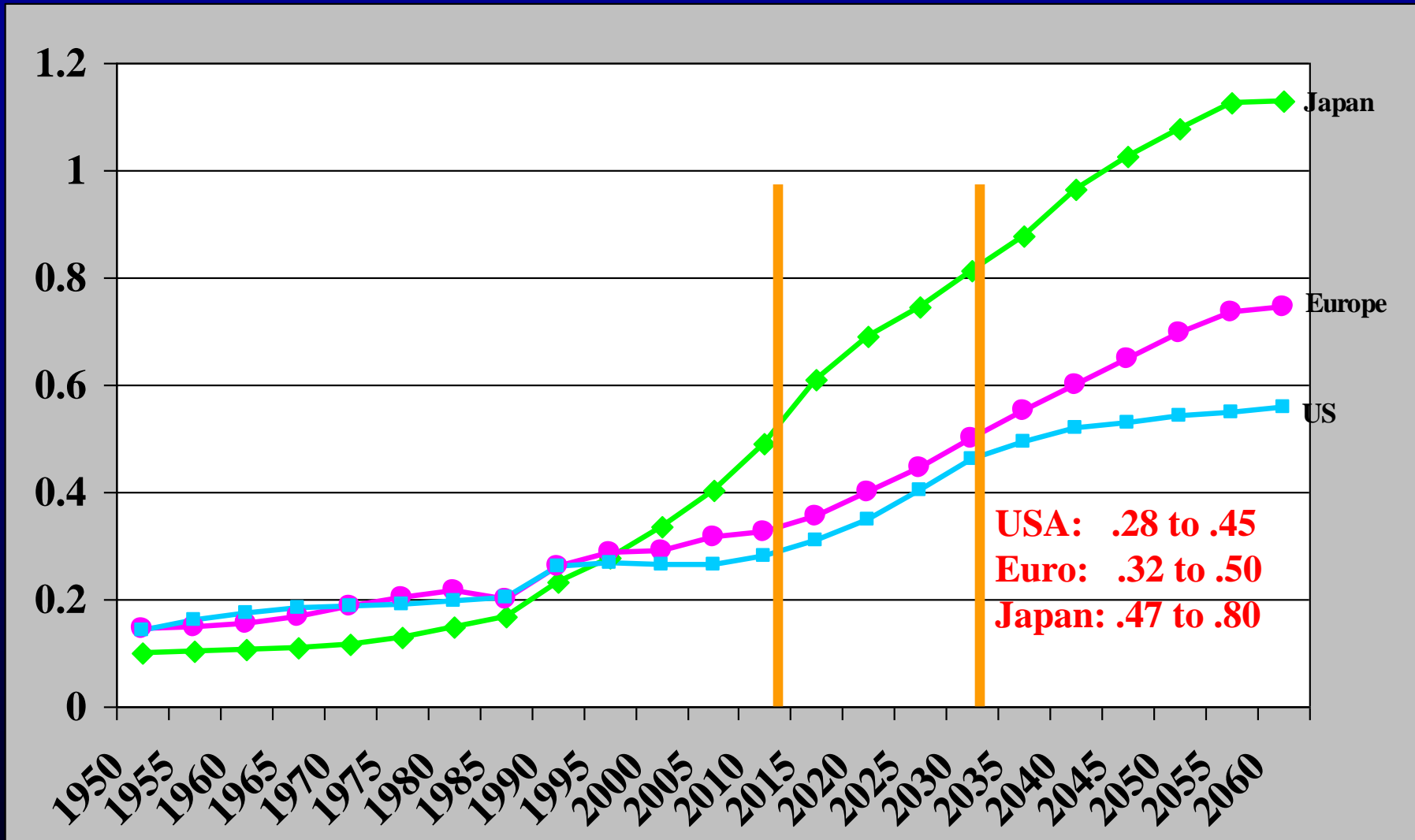
- Trailing 12-Months Dividend for international stocks defined as dividends paid over last year.
  - Consensus Earnings are the Bloomberg calculated earnings per share for the current calendar year
  - Dividend Coverage Ratio is calculated as the Consensus Earnings / Current Trailing 12-month Dividend Per Share
  - P/E ratio is calculated as Share Price / Consensus Earnings
  - Long Term Earnings Growth is defined as Bloomberg consensus estimates for long-term profit growth
- Past performance is not indicative of future results.

# Most Important Development in Next 20 Years

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- In the next 20 years, 40 million Americans will become 65 years old, putting unprecedented demands on Social Security and Medicare, setting our national debt on an unsustainable path.
- Even more strain on the older European and Japanese economies, as an additional 44 million will demand benefits.
- This increase will lead to a rapid increase in the number of retirees per worker.

# Ratio of Retirees ( Age 65+) to workers (Age 20-64)



# Most Critical Question Facing Us

---

- Will there be enough *workers* to produce the goods that will be demanded by retirees, who consume but do not produce?
- Will there be enough *savers* to buy the literally trillions of dollars of assets that these retiree will sell into the market in order to finance their consumption?

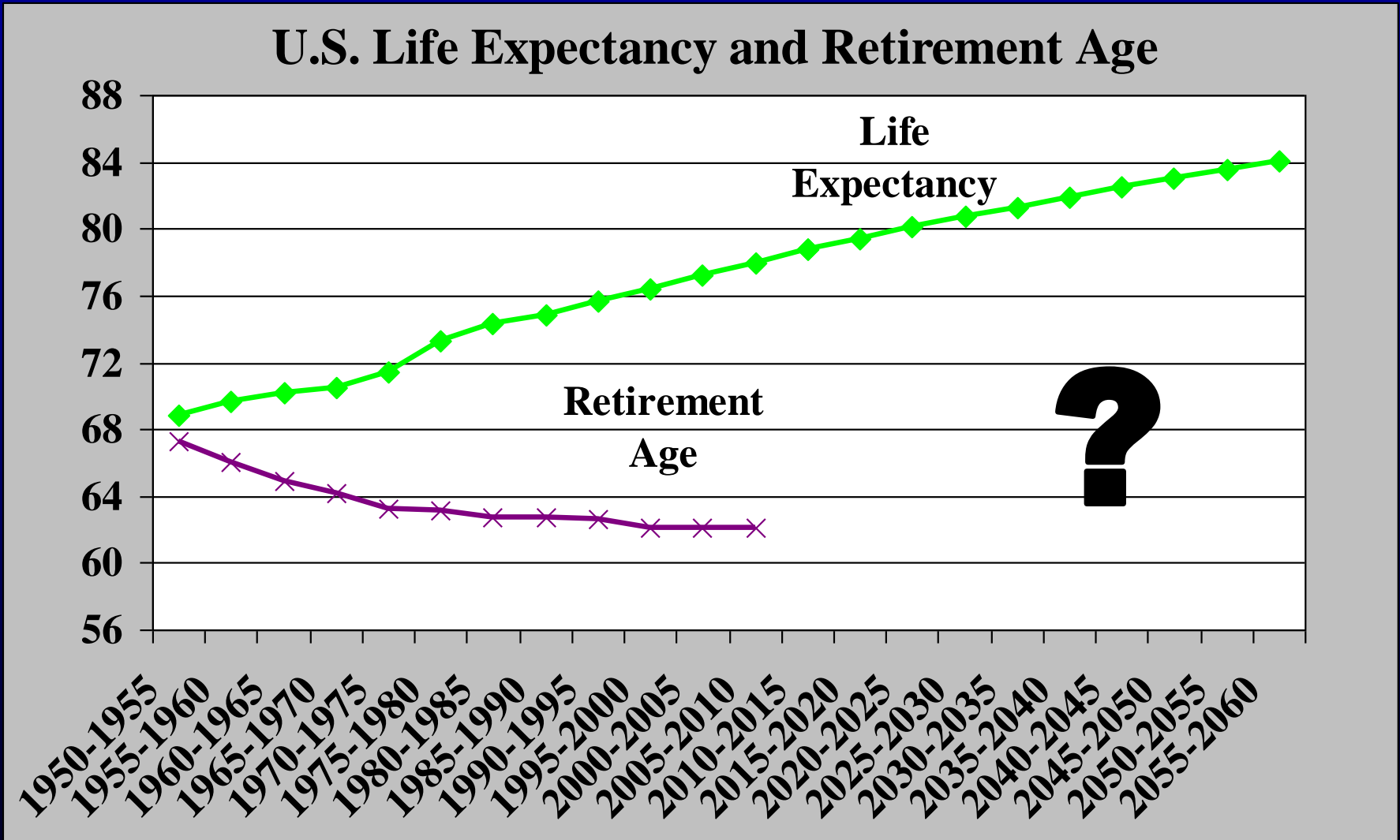


# At What Age Can We Retire?

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- **These strains will put upward pressure on the age we can retire.**
- **The US and the developed world have been enjoying ever increasing life expectancy and ever decreasing retirement age.**
- **Can this trend continue?**

# Rising Life Expectancy and Declining Retirement Age

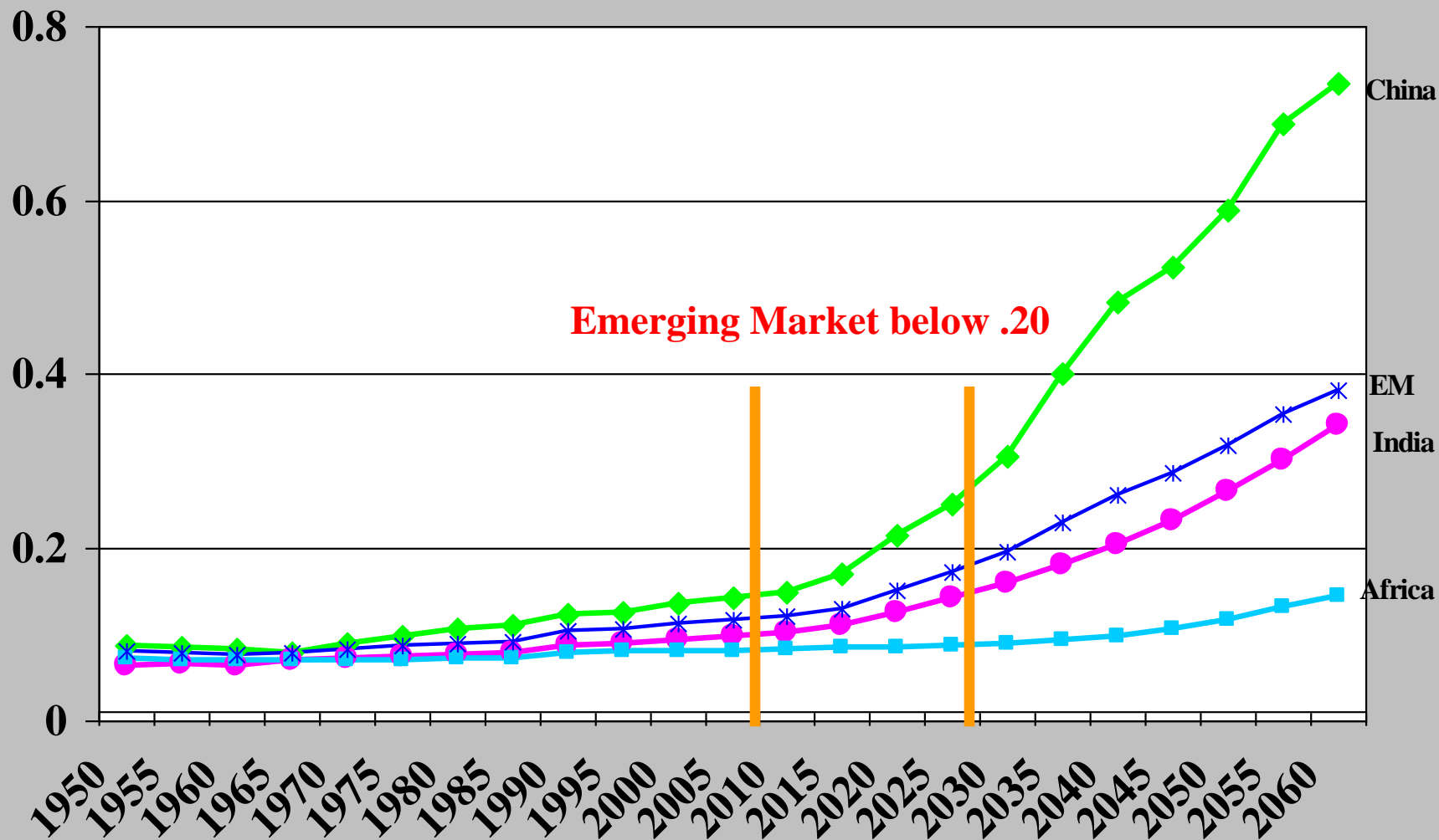


# Different Demographics in EM

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- The rest of the world, even China is much younger than the US.
- Over next 20 years the Emerging Economies will experience a small increase in the number of retirees per worker.

# Ratio of Retirees ( Age 65+) to workers (Age 20-64)

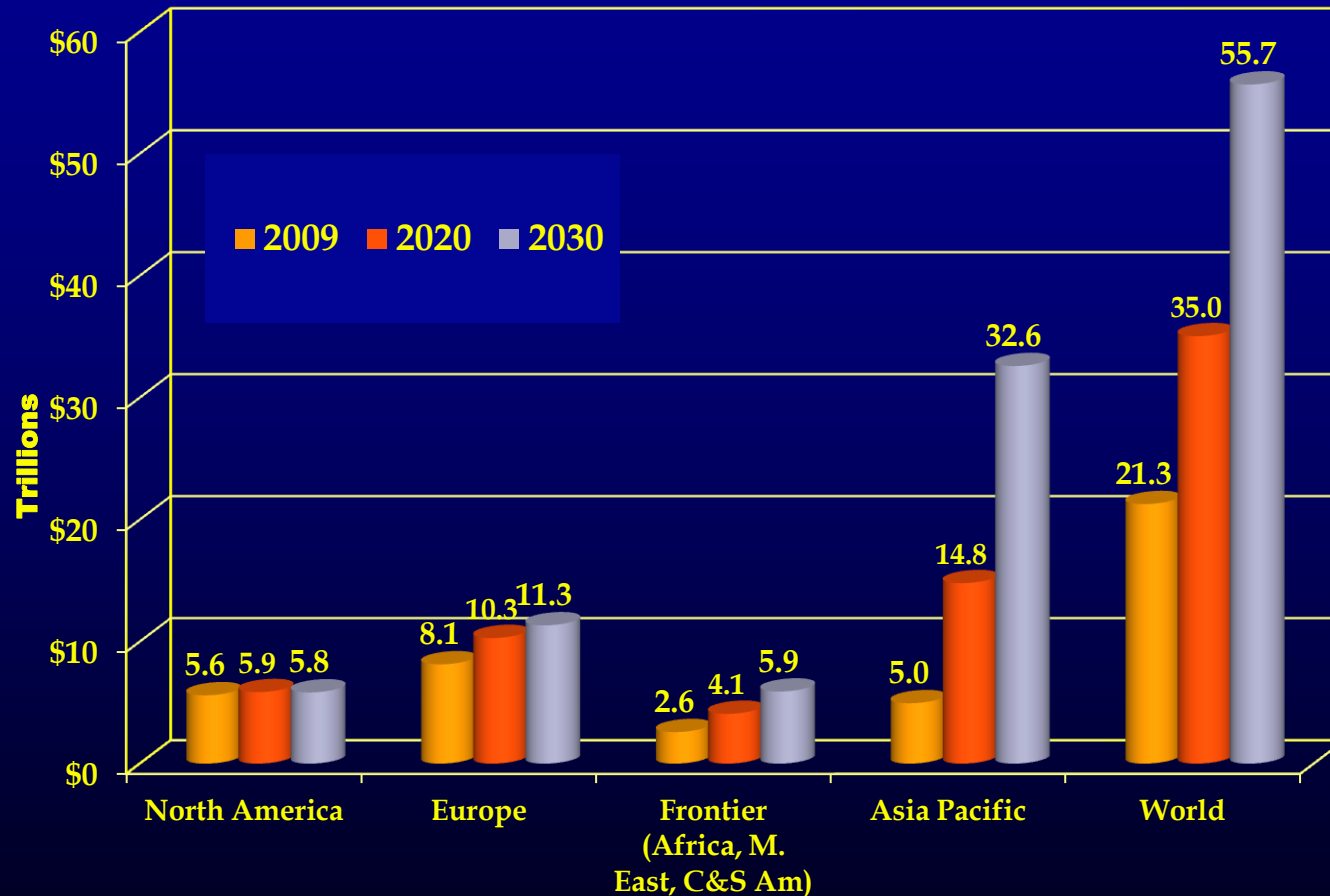


# The growth in the middle Class

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- Currently there are about 1.8 billion individuals in the middle class worldwide, (defined as earnings between \$4,300 and \$43,000 per year), about  $\frac{1}{4}$  of the world's population.
- One half of middle class currently resides in North America and Western Europe but their numbers are going to remain stagnant over the next 20 years.
- But elsewhere, the global middle class is projected to increase by over 2 billion, generating trillions of dollars of purchasing power.

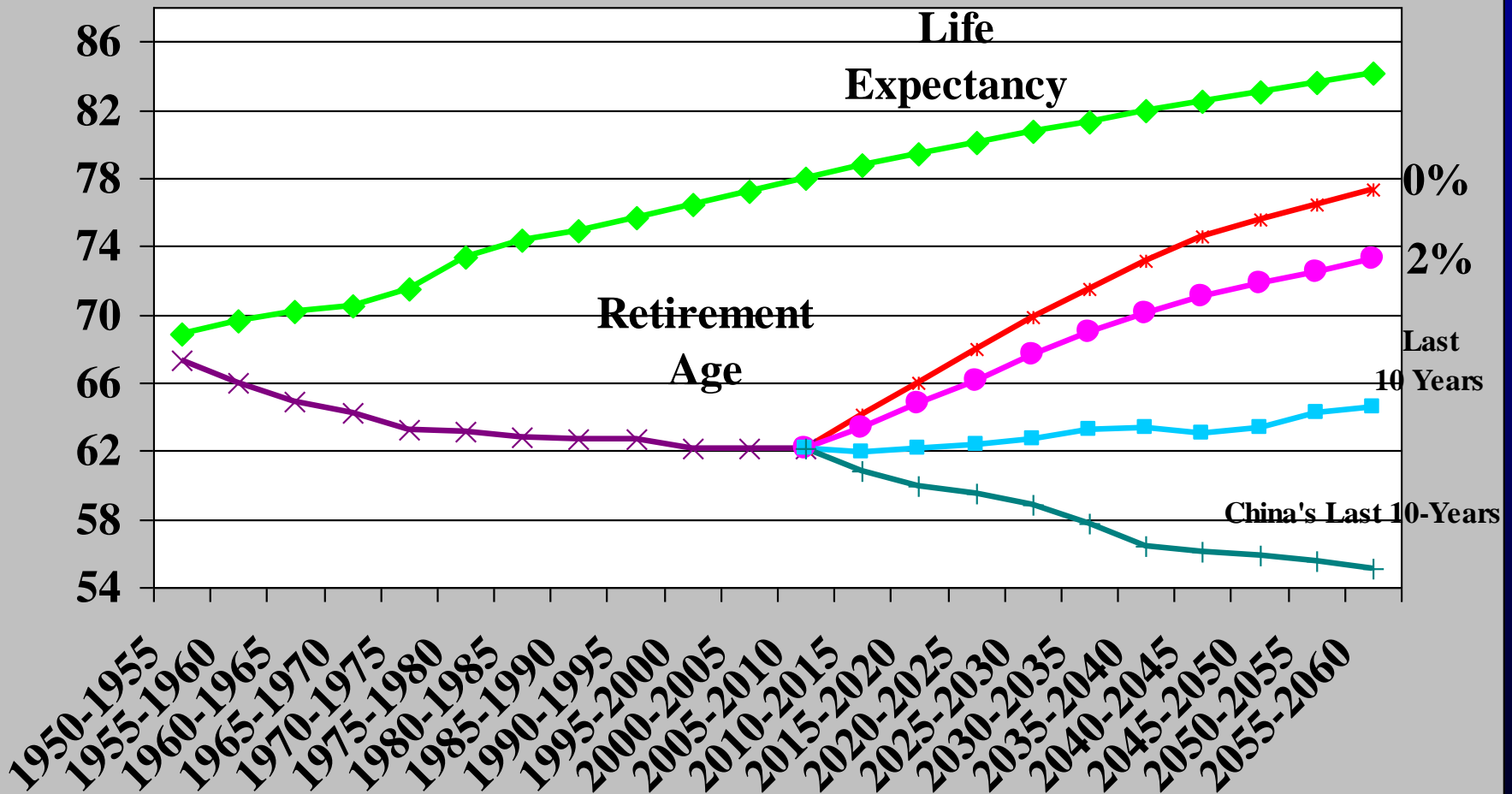
# Growth in Middle Class Spending



Source: Homi Kharas of OECD Development Center

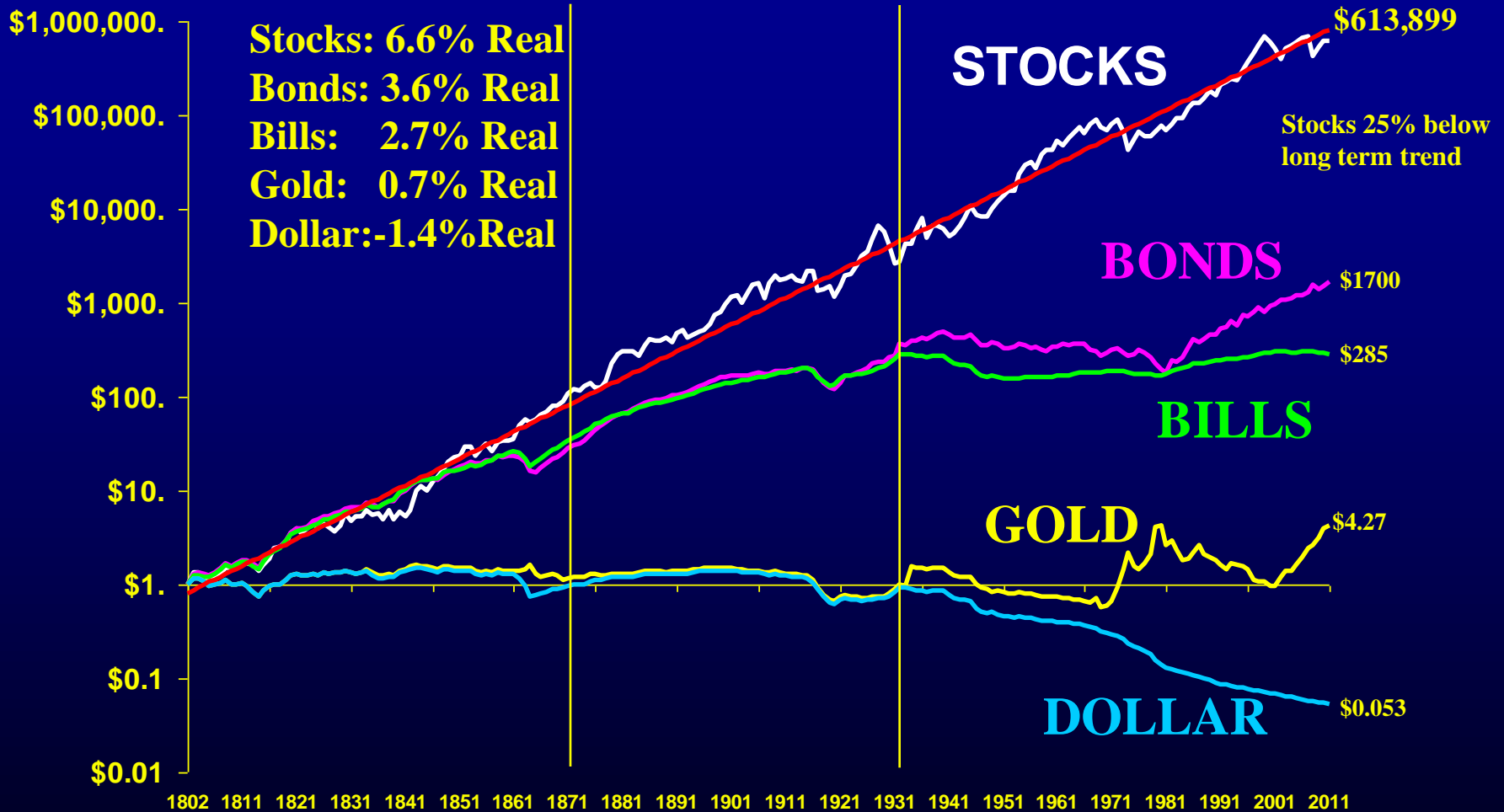
# Retirement Age against GDP growth in LDCs (FOUR SCENARIOS)

## U.S. Life Expectancy and Retirement Age



# Total Real Return Indexes

January 1802 – December 2011



Source: Siegel, Jeremy, *Future for Investors* (2005), *With Updates to 2011*

Past performance is not indicative of future results.



# Important Information

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Past performance does not guarantee future results. No representation is being made that any investment will achieve performance similar to those shown. All information is provided strictly for educational and illustrative purposes only. The information provided is not intended for trading purposes, and should not be considered investment advice.

# Risks

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Note: Stocks are typically subject to increased risks compared to U.S. Treasury Bills while bonds are subject to adverse consequences associated with rising interest rates that cause a decline in a bond's price. A U.S. treasury bill has less risk than bonds because of its very short-term nature and the U.S. government is considered a good creditor. Gold is often invested in as a hedge for inflation, but there is market risk that gold prices fluctuate widely. The value of the U.S. dollar depreciates over time with inflation, so the primary risk is inflation risk.

# Important Information

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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.

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Basis points (BPS) is a unit that is equal to 1/100th of 1%, and is used to denote the change in a financial instrument. The basis point is commonly used for calculating changes in interest rates, equity indexes and the yield of a fixed-income security.

The S&P 500 Price/ earnings ratio is defined as the S&P 500's net income per share divided by its index level. The S&P 500 Index is a capitalization-weighted index of 500 stocks selected by the Standard & Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.

NASDAQ is a computerized system established by the FINRA to facilitate trading by providing broker/dealers with current bid and ask price quotes on over-the-counter stocks and some listed stocks.

Certain index performance information utilizes data provided by the Center for Research in Securities Prices, Graduate School of Business, University of Chicago, also known as CRSP®. CRSP data is not warranted or represented to be correct, complete, accurate or timely. CRSP is not affiliated with WisdomTree and shall not be responsible for investment decisions, damages or losses resulting from the use of the WisdomTree indexes or CRSP data.