WisdomTree Quarterly Market Review and Outlook

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Global equity markets plunged during the third quarter ("Q3"). A number of global market indexes, such as the MSCI ACWI Index[1], entered bear market declines (defined as a decline greater than 20%), while the S&P 500 Index[2] fell into bear market territory briefly during the first week of October. We believe volatility is likely to remain high and that, if appropriate, investors could position equity portfolios to limit downside risk while maximizing current income:

INVESTMENT LANDSCAPE

We believe the two primary risks facing global markets both emanate from overseas: the threat posed to the European banking system by the euro debt crisis and the threat to emerging market economies and global gross domestic product (GDP) growth, should China's economic growth materially slow.

In recent weeks, the world's attention has turned to Europe, where market indicators were blinking red in Q3. Shares of European banks' stocks plunged 30% during the third quarter. The cost of insuring both European bank and sovereign debt[3] against default soared, as did the credit spreads for many European sovereign debt issuers.[4] In October, Fitch Ratings downgraded the credit ratings of Italy and Spain. And most recently, Belgium government bond yields spiked higher after the Belgium government, along with France, announced a multi-billion-dollar bailout of the French-Belgian bank Dexia.

Traditionally, countries only have four choices when faced with high debt burdens: faster economic growth, currency devaluation, austerity or default. Currency devaluation is currently off the table for Greece and Portugal, because neither country controls its own destiny, given that its economies are tied to the euro. With unemployment high and prospects for a sudden pickup in GDP growth low, the only two options left for Greece at this time are austerity or default. And austerity does not seem to be working. Greek officials declared recently that they will not be able to hit European Union (EU) targets for reducing fiscal deficits as a percentage of GDP in 2011 or 2012 because of difficulties of collecting enough tax revenue. Thus far in 2011, Portugal has missed the belt-tightening targets imposed by the EU and the International Monetary Fund (IMF). The Portuguese government is now considering even deeper cuts for 2012 in order to conform to the terms of its €78 billion bailout.

[1] MSCI ACWI Index: broadly cited market cap-weighted index meant to capture the equity performance of both developed and emerging markets.
[2] S&P 500 Index: broadly cited market cap-weighted index meant to capture the equity performance of the United States, specifically 500 of the largest, most heavily traded firms.
[3] Sovereign debt: debt that is the direct obligation of the government by which it is issued.
[4] Credit spread: the additional interest rate of a given country compared to countries considered better credits. In Europe, a credit spread is often measured as a given country's interest rates compared to Germany's.

The banking crisis that became a sovereign debt crisis is threatening to morph once again into a banking crisis. Calls to protect depositors and to shore up banks' capital in the event of European debt write-downs have finally focused the minds of European leaders to address the problem proactively. Plans to help backstop European banks are now being devised in preparation for what many believe is a pending Greek default.

While most global equity markets initially responded positively to this news, details of the plan could eventually prove sobering when both its costs and pitfalls come under greater scrutiny. In our opinion, a likely result will be dilution: dilution to the bondholders of Greek debt that could exceed the 21% haircut[5] proposed in July; dilution to the common shareholders of European banks, as new injections of capital fortify banks that experience write-downs on the debt held on their balance sheets; dilution (i.e., downgrades) of sovereign credit ratings, as national debt burdens and interest costs rise with the assumption of new liabilities; and depending on the extent of the European Central Bank's involvement, further dilution of the euro itself. Even if European governments and the European Central Bank (ECB) successfully cushion European banks from the impact of an orderly Greek default, at some point down the road the European sovereign debt crisis may see a third act—when attention shifts to the financing needs of Italy, where unemployment rates are 8% and Spain, where unemployment rates today exceed 20%. In the absence of faster economic growth in the eurozone, the cost to shore up European banks and allow Italy and Spain to reach their financing needs may not be measured in hundreds of billions of euros as currently discussed, but in the trillions.

Not surprisingly, the euro has reemerged as a focal point for the direction of global markets. The euro, it can be argued, has become a kind of shorthand for European distress. The euro exchange rate versus the U.S. dollar fell 10% from its highs last April, and most of that decline occurred in September of this year. As the euro fell in the final weeks of the third quarter, the dollar rose, and riskier assets declined, with global equities, emerging market currencies and commodities retreating in tandem. Table 1 quantifies how much global markets have pivoted with the direction of the euro since the emergence of the Greek debt crisis.

TABLE 1 [The USD/Euro Exchange Rate[6] is at 1.43 on 1/1/10 and 1.34 on 9/30/11. Average change in asset class prices.]

# Days	Move in Euro	Euro vs. U.S. Dollar	S&P 500 Index	U.S. Dollar Index	JPM Emerging Local Markets ELMI	S&P GSCI Index	Gold	Barclays Capital U.S. Aggregate Bond Index
229	Up	0.56%	0.53%	-0.38%	0.25%	0.48%	0.16%	-0.01%
212	Down	-0.63%	-0.55%	0.42%	-0.26%	-0.45%	0.03%	0.07%
Correlation[7] w/ S&P 500		0.5053	1.0000	-0.4597	0.5862	0.5517	-0.0233	-0.4552

Source: Bloomberg
Past performance is not indicative of future results.

[5] A haircut on the bond is a write-down in its principal. For instance, if the issuer of a bond was supposed to pay $100 principal on a bond, a 21% haircut implies the issuer would only pay $79.
[6] The USD/euro exchange rate is the rate at which one may use U.S. dollars to purchases euros. Movement from 1.43 USD/euro to 1.34 USD/euro implies that the euro has weakened relative to the U.S. dollar, as less dollars are required to purchase 1 euro.
[7] Correlation is a statistical measure of how two indexes move in relation to each other. A correlation ranges from -1 to 1. A correlation of 1 means the two indexes have moved in lockstep with each other. A correlation of -1 means the two indexes have moved in exactly the opposite direction.

U.S. stocks, as represented by the S&P 500, have been negatively correlated to both the U.S. dollar index and the Barclays Capital U.S. Aggregate Bond Index over this period. On average, on days the euro has risen in value, so have U.S. stocks, emerging market currencies and commodities.

With all the uncertainty surrounding Europe's debt and deficits, European banks and the euro, we suggest three areas for consideration, given the current environment:

+ **Ex-financial strategies to help lower risk emanating from banks**
+ **U.S. dividend exchange-traded funds (ETFs) for their defensive sector positioning and income potential**
+ **Markets with greatest declines in 2011 (the emerging markets) for their recovery potential**

EX-FINANCIAL STRATEGIES

For those wishing to maintain or add to equity positions while avoiding bank stocks until the sovereign debt and banking crisis in Europe has been resolved, WisdomTree has two Funds that contain no exposure to the sector most in turmoil in 2011: Financials. The U.S. financial sector experienced the greatest decline of all sectors both in the third quarter and year-to-date. The S&P 500 financial sector was down 25% year-to-date through September, while the S&P 500 was down just over 8 percentage points. We profiled the investment case for owning dividend stocks ex-Financials in both the United States and in the international markets in recent commentaries. The U.S. case can be read here, and the international case can be read here. We continue to believe the dividend focus in the nine sectors outside of Financials can help achieve a more defensive sector positioning versus the broader markets in either the United States or the developed world. These Funds tend to over-weight the sectors considered less economically sensitive and therefore more "defensive" in nature: Consumer Staples, Health Care, Utilities and Telecommunications.

DIVIDEND-BASED U.S. STRATEGIES

Stock returns in 2011 underscore the downside risk investors take on when they own equity markets based on a company's market value rather than the cash dividends a company pays. Consistent with our beliefs that dividend-paying stocks can help protect capital in down markets, 25 (or over 90%) of WisdomTree's 27 dividend-based equity ETFs are outperforming their cap-weighted benchmarks on a net asset value (NAV) basis year-to-date through the third quarter of 2011. (To see standardized fund performance, click here.)

One of the best illustrations of the performance differentials just mentioned can be found by analyzing the performance of the WisdomTree U.S. Dividend ETFs in 2011. The sectors considered to be the most defensive and the least tied to economic cycles (Consumer Staples, Health Care, Utilities and Telecommunications) have been the four best-performing sectors through the third quarter, and each of those four tend to be relatively high dividend-paying sectors.

The sector with the greatest decline in 2011, Financials, cut its dividends during the 2008 financial crisis; therefore, Financials are under-weighted versus the cap-weighted benchmarks in our large-cap and multi-cap dividend ETFs. Only in our small- and mid-cap dividend Indexes do Financials still represent large weights. Yet even there, performance for dividend stocks in 2011 has been better than for their comparable market cap-weighted benchmark indexes. In table 2, we evaluate how WisdomTree's U.S. dividend Index family has performed since the S&P 500 Index peaked on April 29, 2011.

TABLE 2: PERFORMANCE OF INDEXES SINCE MARKET PEAK IN 2011 [as of September 30, 2011]

Index	WT Index Inception Date	Total Returns since S&P 500 Index's 4/29/11 Peak	YTD	YTD Difference in Basis Points[8]	1-Year	3-Year	5-Year	Since WT Index Inception	Trailing 12-Month Dividend Yields (as of 9/30/11)
WT Dividend Index	6/1/06	-12.02%	-3.41%	N/A	5.50%	2.09%	-0.68%	0.64%	3.66%
Russell 3000 Index		-17.75%	-9.90%	649	0.55%	1.45%	-0.92%	0.02%	2.19%
Russell 3000 Value Index		-19.28%	11.85%	844	-2.22%	-1.62%	-3.49%	-2.11%	2.71%
WT LargeCap Dividend Index	6/1/06	-11.20%	-2.64%	N/A	6.04%	1.74%	-1.05%	0.38%	3.55%
S&P 500 Index		-16.26%	-8.68%	604	1.14%	1.23%	-1.18%	-0.05%	2.30%
Russell 1000 Value Index		-18.79%	-11.24%	860	-1.89%	-1.52%	-3.53%	-2.10%	2.70%
WT Equity Income Index	6/1/06	-6.92%	1.80%	N/A	8.28%	1.74%	-2.55%	-0.67%	4.62%
Russell 1000 Value Index		-18.79%	-11.24%	1304	-1.89%	-1.52%	-3.53%	-2.10%	2.70%
WT Dividend Ex-Financials Index	5/1/09	-8.24%	0.27%	N/A	10.39%	N/A	N/A	23.12%	4.58%
DJ U.S. Select Dividend Index		-8.31%	-0.23%	50	7.22%	1.17%	-1.56%	19.43%	4.23%
WT MidCap Dividend Index	6/1/06	-16.60%	-7.05%	N/A	1.94%	4.34%	0.21%	1.20%	4.08%
S&P 400 MidCap Index		-22.57%	-13.02%	597	-1.28%	4.05%	2.19%	1.85%	1.63%
Russell MidCap Value Index		-20.92%	-13.01%	596	-2.36%	1.98%	-0.84%	-0.02%	2.70%
WT SmallCap Dividend Index	6/1/06	-18.79%	-14.21%	N/A	-3.27%	0.69%	-1.98%	-0.78%	5.12%
Russell 2000 Index		-25.10%	-17.02%	281	-3.53%	-0.37%	-1.02%	-0.75%	1.83%
Russell 2000 Value Index		-24.78%	-18.51%	430	-5.99%	-2.78%	-3.07%	-2.20%	2.77%

Source: Bloomberg
Past performance is not indicative of future results.

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.

[8] Basis point = 1/100th of 1 percentage point.

Note how each of WisdomTree's U.S. Dividend Indexes protected the downside in 2011, with the greatest differential occurring within WisdomTree's higher-dividend portfolios—ones with even more defensive exposures (the WisdomTree Equity Income Index) or that exclude Financials entirely (WisdomTree Dividend ex-Financials Index).

MARKETS WITH THE GREATEST DECLINES

Those who like to scour equity markets in search of the greatest declines may be interested in the emerging markets. Of all of WisdomTree's equity Indexes, the emerging markets have been the biggest losers so far in 2011.

The small-cap segment in particular has seen some of the sharpest declines. The main culprit has been the small caps' heavy exposure to local manufacturing and industrial companies that absorbed a heavy hit during the bear market.

In contrast to the small caps, the WisdomTree Emerging Markets Equity Income Index provided approximately 750 basis points in downside protection compared to the broader MSCI Emerging Markets Index in 2011. One reason for this downside protection has been the defensive sector positioning, notably a large over-weight to Telecommunications, which experienced significantly less volatility in 2011.

TABLE 3: PERFORMANCE OF INDEXES SINCE MARKET PEAK IN 2011 [as of September 30, 2011]

Index	WT Index Inception Date	Total Returns since S&P 500 Index's 4/29/11 Peak	YTD	YTD Difference in Basis Points[9]	1-Year	3-Year	5-Year	Since WT Index Inception	Trailing 12-Month Dividend Yields (as of 9/30/11)
WT EM Small Cap Index	8/1/07	-26.10%	-22.74%	N/A	-16.37%	14.35%	N/A	0.97%	5.91%
MSCI Emerging Markets Small Cap Index		-27.90%	-26.70%	396	-20.89%	13.90%	7.24%	-3.71%	3.04%
WT EM Equity Income Index	6/1/07	-21.35%	-14.39%	N/A	-8.05%	11.33%	N/A	6.24%	7.08%
MSCI Emerging Markets Index		-25.75%	-21.88%	749	-16.15%	6.27%	4.86%	-0.93%	3.16%

Source: Bloomberg
Past performance is not indicative of future results.
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.

Much of the decline in the emerging market indexes can be attributed to contractions in price-to-earnings (P/E)[10] multiples rather than to contractions in earnings or dividends.

[9] Basis point = 1/100th of 1 percentage point.
[10] The price-to-earnings ratio is a measure of the aggregate market value of an index or set of stocks divided by its aggregate earnings. The price-to-earnings ratio gives investors an idea of how much they are paying for an index's earnings power. One way to think of the price-to-earnings ratio is how many years it would take for an index to earn its price (market value), assuming no future growth in earnings. A lower price-to-earnings ratio thus is considered a positive feature of an index, assuming future growth of that index is equal to that of a competing index.

- **In fact, on a year-over-year basis, the trailing 12-month dividends per share of the WisdomTree Emerging Markets SmallCap Dividend Index grew 34.5% over the previous year to a new high, while the index price declined 19.6%.**
- **The WisdomTree Emerging Markets Equity Income Index had a trailing 12-month dividend growth of positive 39.5% but an index price decline of 12.4%; its dividends, as of September 30, 2011, also set a new high and were 17% above the level they were 3 years ago (prior the sharp drop off in 2009).**

TABLE 4: INDEX VALUES AND TRAILING 12-MONTH INDEX DIVIDENDS ON WISDOMTREE EMERGING MARKET INDEXES

	Index Value		Yearly Index Change		Trailing 12-Month Dividends per Share		Year-over-Year Dividend Growth	
Index	WT Emerging Markets Equity Income	WT Emerging Markets SmallCap Dividend	WT Emerging Markets Equity Income	WT Emerging Markets SmallCap Dividend	WT Emerging Markets Equity Income	WT Emerging Markets SmallCap Dividend	WT Emerging Markets Equity Income	WT Emerging Markets SmallCap Dividend
9/30/2007	220.14	107.79			9.86	4.47		
9/30/2008	175.16	68.66	-20.4%	-36.3%	10.78	4.29	9.3%	-4.0%
9/30/2009	203.17	89.64	16.0%	30.6%	7.39	2.94	-31.4%	-31.3%
9/30/2010	241.13	113.62	18.7%	26.8%	9.07	3.49	22.6%	18.5%
9/30/2011	211.14	91.31	-12.4%	-19.6%	12.65	4.69	39.5%	34.5%

Sources: WisdomTree, S&P
Past performance is not indicative of future results. You cannot invest directly in an index.

CONCLUSION

The volatility in the equity market certainly creates many opportunities for investors to buy stocks at discounted prices from earlier levels. This volatility is negative for forced sellers but positive for those who have cash on the sidelines or more money to put to work. And the data shows there is a lot of money on the sidelines.

Many investors have fled the U.S. equity markets and have not returned over the last four years. According to the Investment Company Institute (ICI), since 2008 there has been over $300 billion of outflows from U.S. equity mutual funds. During the market rally in 2009 and 2010, there were no net inflows into U.S. equity funds. Money went into foreign stock funds but not U.S. stock funds. Bond funds, by contrast, have received $720 billion in inflows since 2008.

There will come a point when fears of the European debt crisis start to fade away, when equities could become the asset class of choice again for a broader section of investors. In the meantime, we believe selective allocations to some of the dividend-oriented and more defensively positioned equity strategies discussed in this commentary could be useful portfolio tools for consideration.

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Index Definitions: Barclays Capital U.S. Aggregate Bond Index is an index used by bond funds as a benchmark to measure their relative performance. The index comprises government securities, mortgage-backed securities, asset-backed securities and corporate securities to simulate the universe of bonds in the market. Dow Jones U.S. Select Dividend Index is calculated, distributed and marketed by Dow Jones Indexes, a licensed trademark of CME Group Index Services LLC, and has been licensed for use. Dow Jones U.S. Select Dividend Index measures the performance of 100 U.S. dividend-paying companies. S&P GSCI (Goldman Sachs Commodity Index) is a composite index of commodity sector returns, which represents a broadly diversified, unleveraged, long-only position in various commodity futures. JPMorgan Emerging Local Markets Index Plus and its underlying country and regional sub-indexes track the total returns for local-currency denominated money market instruments in emerging market countries. MSCI AC World Index measures the performance of the world stock market indexes covered by MSCI. MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure emerging market equity performance. MSCI Emerging Markets Small Cap Index is a free float-adjusted market capitalization index that is designed to measure the performance of small-capitalization equities in the emerging markets. Russell 1000 Value Index is a capitalization-weighted index that measures the large-cap value segment of the U.S. equity universe, selecting from the Russell 1000 Index. Russell 2000 Index is a capitalization-weighted index that measures the small-cap segment of the U.S. equity universe, selecting stocks ranked 1,001–3,000 by market capitalization from the Russell 3000 Index. Russell 2000 Value Index is a capitalization-weighted index that measures the small-cap value segment of the U.S. equity universe, selecting from the Russell 2000 Index. Russell 3000 Index is a capitalization-weighted index that measures the performance of the 3,000 largest U.S. companies based on total market capitalization. Russell 3000 Value Index is a capitalization-weighted index that measures the performance of the value sector of the broad U.S. equity market. Russell Midcap Value Index is a capitalization-weighted index that measures the midcap value segment of the U.S. equity universe, selecting from the Russell Midcap Index. 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. S&P MidCap 400 Index is a capitalization-weighted index of 400 stocks selected by the Standard & Poor's Index Committee designed to represent the performance of the mid-cap segment of the market. U.S. Dollar Index is meant to track the general international value of the U.S. dollar relative to major currencies and serves as the underlying index for the USDX futures contract. WisdomTree Dividend Index is a fundamentally weighted Index that defines the dividend-paying portion of the U.S. stock market. WisdomTree Dividend ex-Financials Index is comprised of the 10 highest dividend-yielding companies in each sector, selected from the 300 largest companies by market value in the WisdomTree Dividend Index outside of Financials. WisdomTree Emerging Markets Dividend Index is a fundamentally weighted Index that measures the performance of dividend-paying stocks selected from the following 19 emerging market nations: Argentina, Brazil, Chile, China, Czech Republic, Hungary, India, Indonesia, Israel, Malaysia, Mexico, the Philippines, Poland, Russia, South Africa, South Korea, Taiwan, Thailand and Turkey. Companies are weighted in the Index based on annual cash dividends paid. WisdomTree Emerging Markets Equity Income Index is a fundamentally weighted Index that measures the performance of the highest dividend-yielding stocks selected from the WisdomTree Emerging Markets Dividend Index. WisdomTree Emerging Markets SmallCap Dividend Index is a fundamentally weighted Index that measures the performance of primarily small-cap stocks selected from the WisdomTree Emerging Markets Dividend Index. WisdomTree Equity Income Index is a fundamentally weighted Index that measures the performance of companies with high dividend yields selected from the WisdomTree Dividend Index. WisdomTree India Earnings Index is a fundamentally weighted Index that measures the performance of profitable companies, as of the annual Index screening date, incorporated and traded in India that are eligible to be purchased by foreign investors. WisdomTree LargeCap Dividend Index is a fundamentally weighted Index that measures the performance of the large-cap segment of the U.S. dividend-paying market. WisdomTree MidCap Dividend Index is a fundamentally weighted Index that measures the performance of the mid-cap segment of the U.S. dividend-paying market. WisdomTree SmallCap Dividend Index is a fundamentally weighted Index measuring the performance of the small-cap segment of the U.S. dividend-paying market.

Investors should carefully consider the investment objectives, risks, charges and expenses of the Funds before investing. To obtain a prospectus containing this and other important information, call 866.909.WISE (9473) or visit wisdomtree.com. Read the prospectus carefully before you invest.

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. This Fund focuses its investments in India, thereby increasing the impact of events and developments associated with the region, which can adversely affect performance. Investments in emerging, offshore or frontier markets such as India are generally less liquid and less efficient than investments in developed markets and are subject to additional risks, such as of adverse governmental regulation and intervention or political developments. As this Fund has a high concentration in some sectors, the Fund can be adversely affected by changes in those sectors. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

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