

Global Economic and Market Trends

Prof. Jeremy J. Siegel ~ The Wharton School

Nasdaq OMX Stock Exchange 15th Anniversary Conference

Tallinn, Estonia ~ May 20, 2011



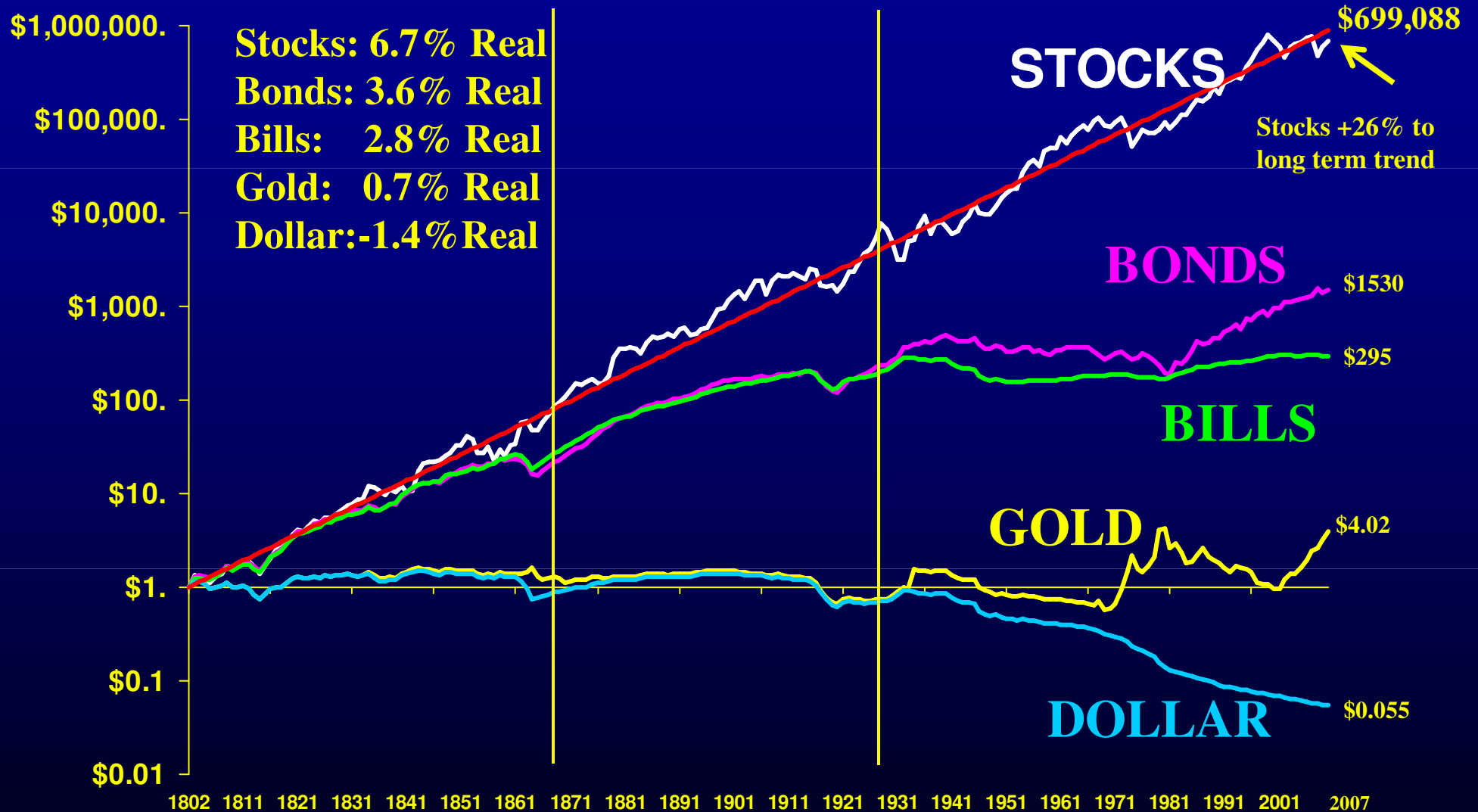
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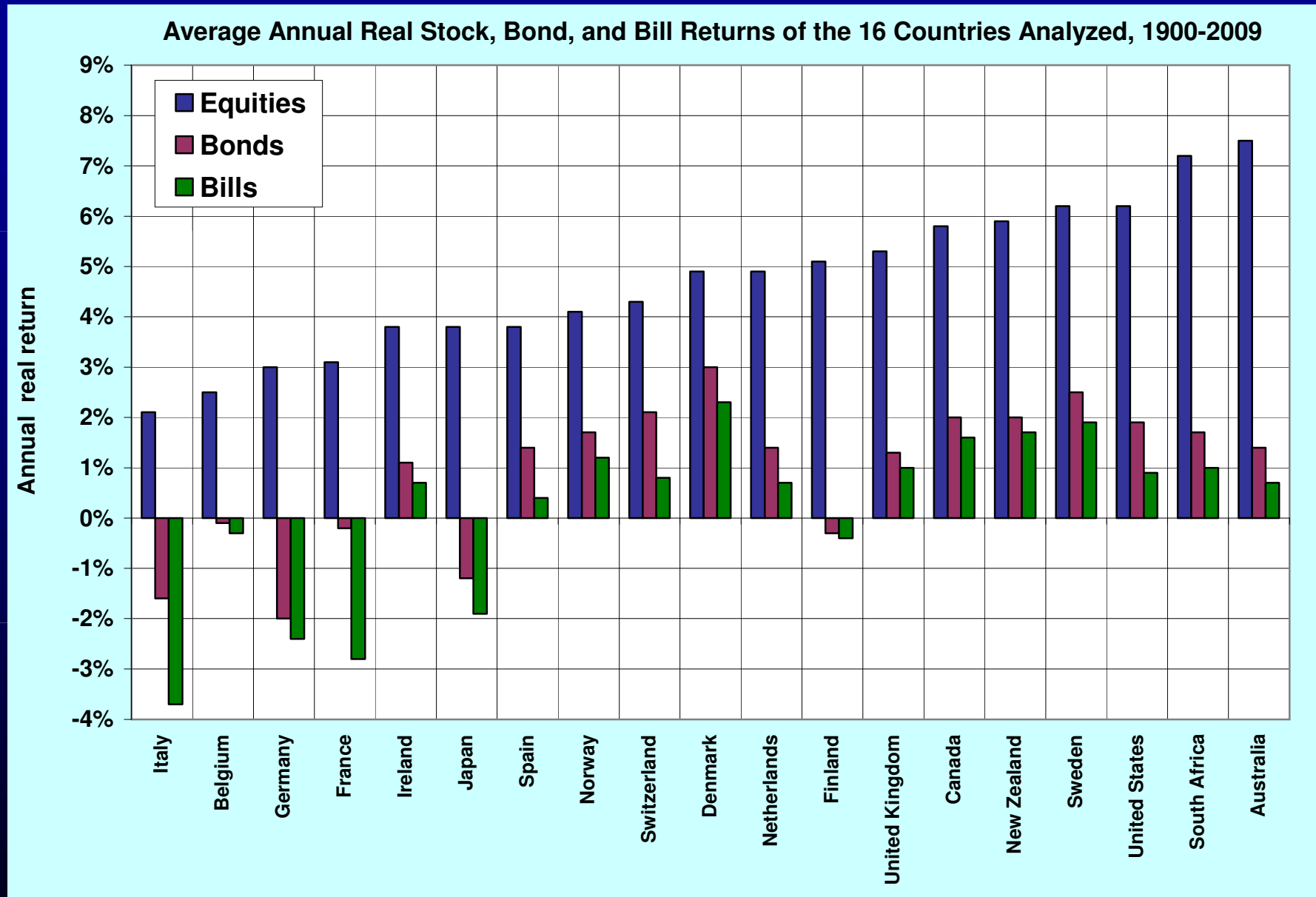
Total Real Return Indexes

January 1802 – December 2010



Source: Siegel, Jeremy, *Stocks for the Long Run* (2008), updated by author.

Worldwide Stock, Bond, and Bill Returns



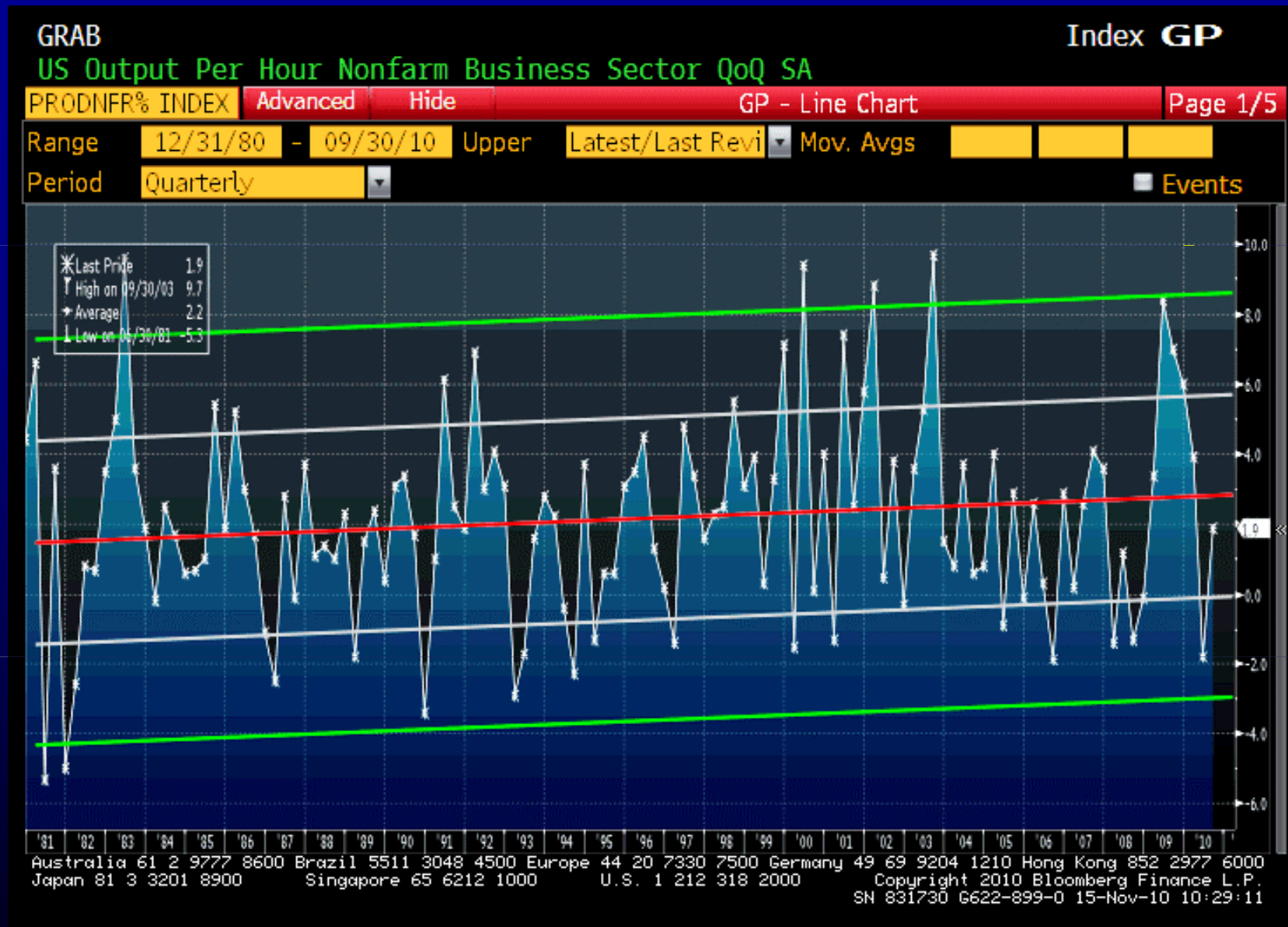
Source: Source: Dimson, Marsh, Staunton, Triumph of the Optimists; authors' updates

Past Performance is no guarantee of future results

Why am I optimistic about the Future

- Long Term Economic Growth depends on *Productivity Growth*, not aggregate Demand.
- Productivity Growth depends on discoveries, innovations, and inventions.
- History shows that the rate of discovery is influenced by the number of individuals engaged in common research, which in turn depends on the level of communication.
- Internet and communications revolution will sharply increase rate of productivity growth.

Quarterly productivity Growth 1980-2010



Source: Bloomberg

Past performance is not indicative of future results.

THREATS TO MARKET AND ECONOMY

Crude Realities

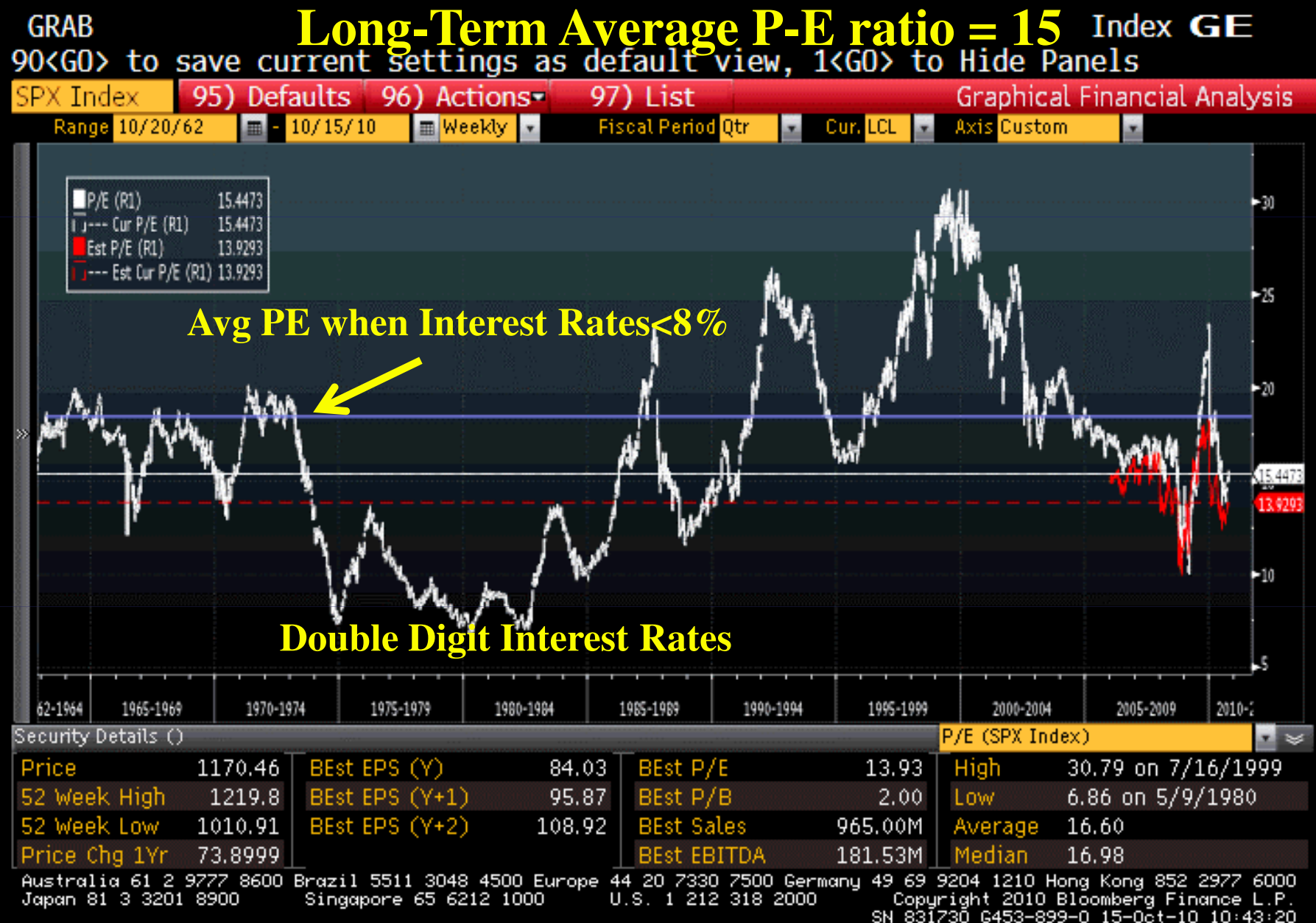
- ❑ Key to oil market is Saudi Arabia
- ❑ If disturbances curtail Saudi production there will be a major shock
- ❑ Every \$10 increase in crude per barrel cuts GDP about 0.25%.
- ❑ Oil averaged \$80/b in 2010. Current price of Brent is \$124, so the increase has cut GDP about one percentage point.
- ❑ But impact far less than the 1970s
 - ❑ Oil intensity (energy needed/GDP) one half the level
 - ❑ Natural gas at multi-year low
 - ❑ Alternative energy sources much closer.

Government Debt

- ❑ This is a long-term, not a short-term problem.
- ❑ Debt ceiling will be raised, no default will occur.
- ❑ Medicare by far the biggest source of long-term deficit.
- ❑ Expect US tax rates to rise in 2013.

Global Valuation

P-E Ratio on S&P 500, 1962-2010



What is the S&P500 worth today?

- 2011 estimated Earnings for S&P 500 = \$96.59 at P-E ratio of 13.8 (1337 for April 22) index level. 2012 estimate \$110.28 at 12.1 PE.
- Record \$91.47 in 12 months ending June 2007(S&P at 1503)
- 15 P-E for 2011 = 1449; about 8% above current levels
- 19 P-E, average P-E when interest rates are low, = 1835, 37% above current levels.
- Quality of Earnings: The last 4 quarters reported earnings running 91.7% of operating earnings vs long-term average of 84%.
- Average real return when investing at or below average P-E is 11%.

World P-E Ratios

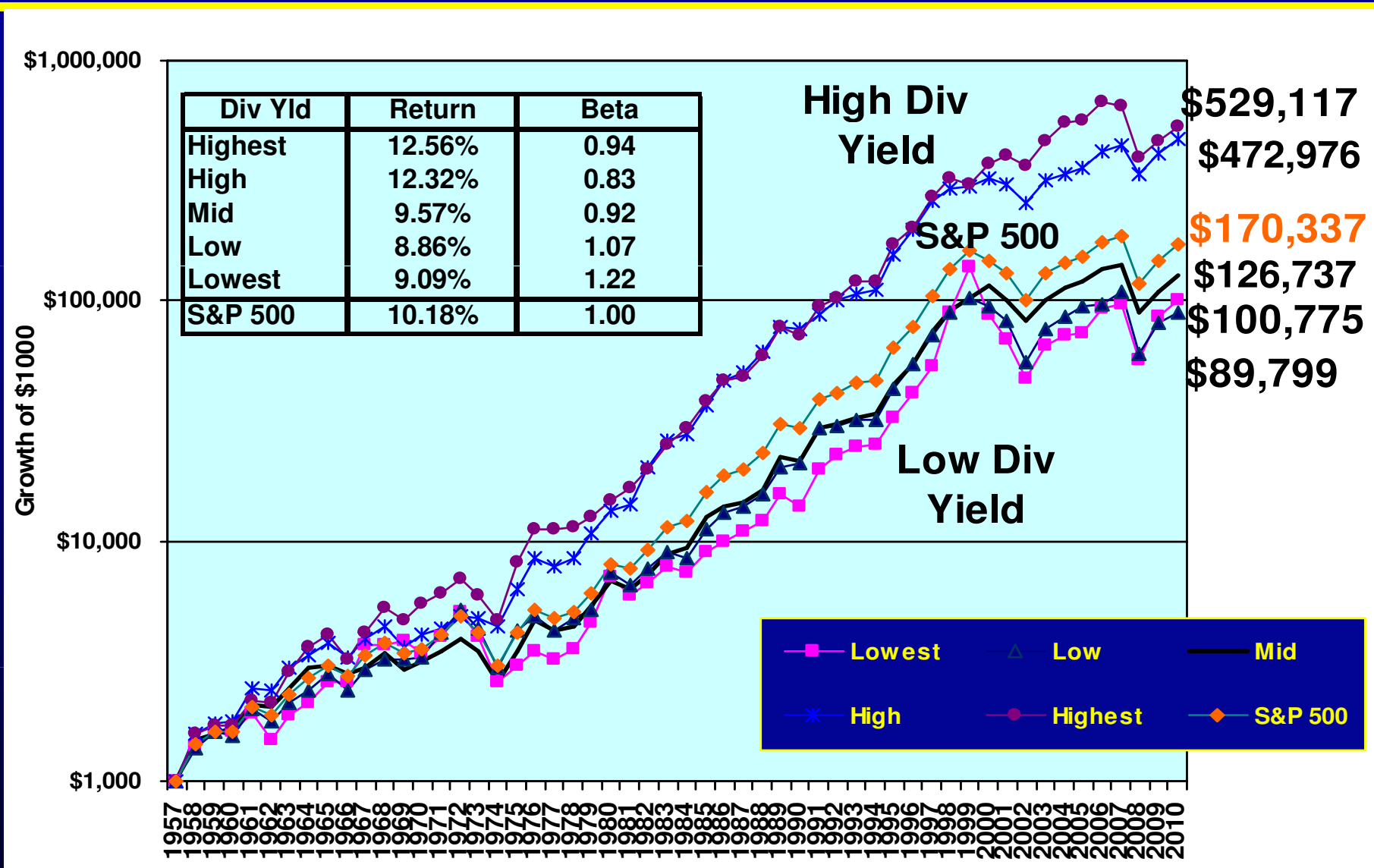
				2010	2011	2012
GRAB				Equity WPE		
Enter 1,2,3 or number <GO> for a historical graph of the earnings.						
World Equity Index Ratios				97) WEI	98) EML	
Measure	Price/Earnings			Price/	Curr Yr	Nxt Yr
1) North/Latin America		Price	Net Chg	Earnings	Est.	Est.
4) INDU	DOW JONES INDUS.	11858.52	83.93	13.65	12.26	10.98
5) SPX	S&P 500 INDEX	1279.20	5.48	15.00	13.19	11.62
6) CCMP	NASDAQ COMPOSITE	2643.67	7.62	26.68	16.78	13.87
7) SPTSX	S&P/TSX COMPOSIT	13789.63	43.48	20.34	15.10	13.16
8) MEXBOL	MEXICO IPC INDEX	35418.50	-203.18	16.70	14.06	12.81
2) Europe/Africa/Middle East						
9) SX5E	Euro Stoxx 50 Pr	2792.61	6.45	11.32	9.54	8.54
10) UKX	FTSE 100 INDEX	5718.13	22.02	13.47	10.19	9.16
11) CAC	CAC 40 INDEX	3810.22	24.01	11.65	9.94	8.88
12) DAX	DAX INDEX	6664.40	7.52	12.35	10.33	9.11
13) IBEX	IBEX 35 INDEX	10328.40	2.80	9.09	10.12	8.90
14) FTSEMIB	FTSE MIB INDEX	21197.10	56.51	13.98	10.31	8.68
15) AEX	AEX-Index	350.41	1.15	11.64	9.99	8.91
16) SMI	SWISS MARKET IND	6098.05	24.63	14.18	11.53	10.42
3) Asia/Pacific						
17) NKY	NIKKEI 225	9206.75	244.08	16.68	15.76	13.47
18) HSI	HANG SENG INDEX	22300.23	15.80	12.71	12.03	10.47
19) SHCOMP	SHANGHAI SE COMP	2906.89	9.59	18.13	13.65	11.51
20) AS51	S&P/ASX 200 INDE	4626.40	71.10	16.60	13.13	11.30
21) FSSTI	FTSE STRAITS TIM	2935.78	-7.10	10.07	13.42	12.13

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Estonia 12.86 times 2011 earnings, 10.25 times 2012

**Where can you get
yield in a world of
near zero interest
rates?**

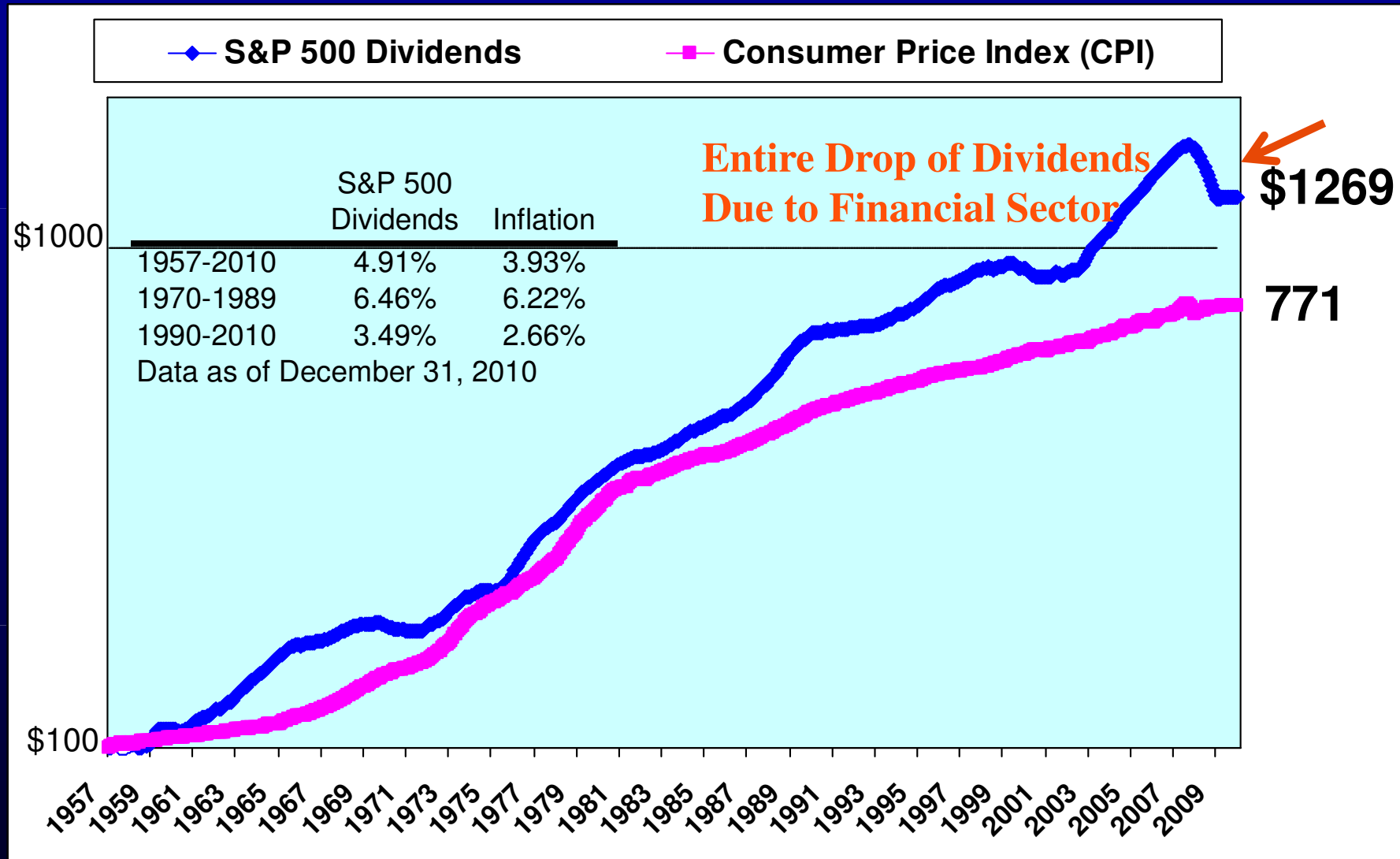
Dividend Paying Stocks of the S&P 500



Each stock in S&P 500 is ranked from highest to lowest by dividend yield on December 31st 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 31st of that year.

Past performance does not guarantee future results.

Dividend Income beat inflation



Data from December 31, 1957-December 31, 2010

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
XOM	Exxon Mobil Corp	\$1.88	2.1%	\$9.20	4.9x	9.6x
T	AT&T Inc	\$1.72	5.5%	\$2.54	1.5x	12.2x
CVX	Chevron Corp	\$3.12	2.9%	\$12.79	4.1x	8.6x
PFE	Pfizer Inc	\$0.80	3.8%	\$2.28	2.9x	9.2x
JNJ	Johnson & Johnson	\$2.28	3.5%	\$5.23	2.3x	12.6x
VZ	Verizon Communications Inc	\$1.95	5.2%	\$2.60	1.3x	14.5x
GE	General Electric Co	\$0.60	2.9%	\$1.66	2.8x	12.3x
PG	Procter & Gamble	\$2.10	3.2%	\$4.29	2.0x	15.1x
PM	Phillip Morris International	\$2.56	3.7%	\$5.07	2.0x	13.7x
MSFT	Microsoft	\$0.64	2.5%	\$2.75	4.3x	9.4x
Average Top 10			3.5%		2.8x	11.7x
S&P 500			1.9%		3.9x	13.8x
WisdomTree Dividend Index			3.1%		2.3x	13.7x

Source: WisdomTree, Bloomberg, Data as of April 30, 2011

* Defined as the ten largest weighted stocks in the WisdomTree Dividend Index, as of April 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	Trailing 12-Month Dividend	Dividend Yield	Consensus Earnings	Dividend Coverage Ratio	PE Ratio
FP FP	Total SA	\$2.28	5.3%	\$5.42	2.4x	8.0x
VOD LN	Vodafone Group PLC	\$9.44	5.5%	\$16.60	1.8x	10.3x
TEF SM	Telefonica SA	\$1.52	8.4%	\$1.85	1.2x	9.8x
FTE FP	France Telecom SA	\$1.40	8.8%	\$1.71	1.2x	9.3x
RDSA LN	Royal Dutch Shell A	\$100.64	4.3%	\$251.11	2.5x	9.2x
SAN SM	Banco Santander	\$0.61	7.1%	\$1.05	1.7x	8.2x
GSZ FP	GDF Suez	\$1.50	5.4%	\$2.07	1.4x	13.4x
HSBA LN	HSBC Holdings PLC	\$25.79	3.9%	\$54.45	2.1x	12.0x
ENEL IM	ENEL SPA	\$0.28	5.8%	\$0.48	1.7x	10.1x
RDSB LN	Royal Dutch Shell B	\$100.64	4.3%	\$251.11	2.5x	9.3x
Average Top 10			5.9%		1.8x	10.0x
MSCI EAFE Index			3.4%		2.4x	12.1x
WisdomTree DEFA Index			4.4%		1.9x	11.8x

Source: WisdomTree, Bloomberg, Data as of April 30, 2011

* Defined as the ten largest weighted stocks in the WisdomTree DEFA Index, as of April 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	Trailing 12-Month Dividend	Dividend Yield	Consensus Earnings	Dividend Coverage Ratio	PE Ratio	Long Term Earnings Growth
2330 TT	Taiwan Semiconductor Mfg	\$3.00	4.1%	\$6.09	2.0x	12.0x	10.0%
BBAS3 BS	Banco do Brasil	\$1.77	6.1%	\$3.96	2.2x	7.3x	11.3%
2498 TT	HTC Corporation	\$24.76	1.9%	\$82.80	3.3x	15.7x	33.6%
LKOD LI	LUKOIL-SPON ADR	\$1.68	2.4%	\$11.67	7.0x	5.9x	-0.3%
KGH PW	KGHM Polska Miedz SA B	\$3.00	1.5%	\$29.94	10.0x	6.5x	N/A
CEZ CP	CEZ-Ceske Energeticke Zavody	\$53.00	5.7%	\$78.77	1.5x	11.9x	-1.0%
AMBV3 BS	Cia Bebidas das Americas	\$1.80	4.3%	\$2.66	1.5x	15.8x	15.4%
3988 HK	Bank of China H	\$0.15	3.6%	\$0.51	3.3x	8.5x	13.5%
TTKOM TI	Turk Telekomunikasyon AS	\$0.45	6.5%	\$0.73	1.6x	10.9x	15.7%
2412 TT	Chunghwa Telecom Co Ltd	\$5.07	5.6%	\$5.83	1.1x	15.6x	N/A
Average Top 10			4.2%		3.4x	11.0x	12.3%
MSCI Emerging Markets Index			2.8%		3.1x	11.6x	
WisdomTree Emerging Markets Equity Income Index			5.5%		1.6x	11.4x	

Source: WisdomTree, Bloomberg, Data as of April 30, 2011

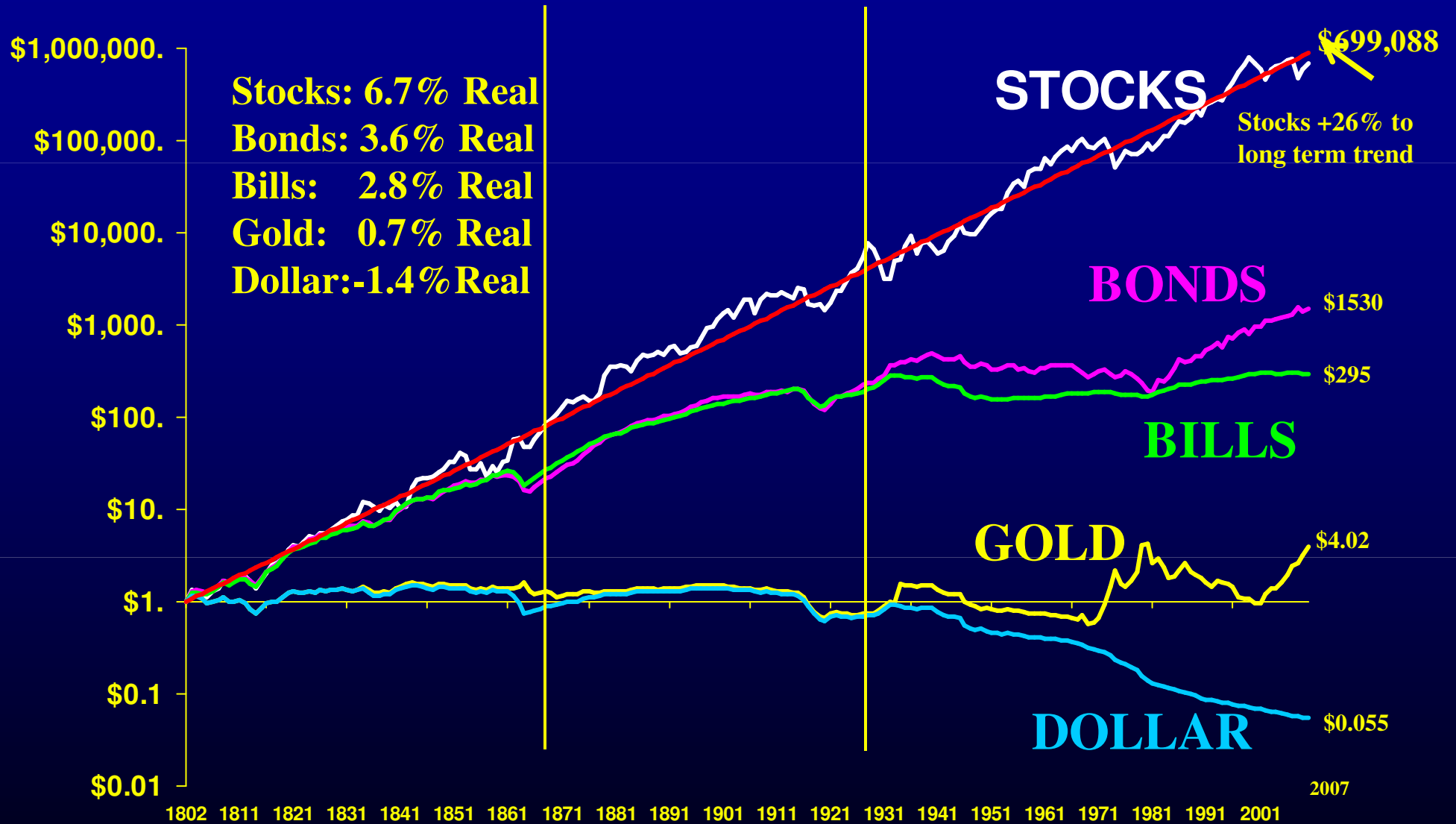
* Defined as the ten largest weighted stocks in the WisdomTree Emerging Markets Equity Income Index, as of April 30, 2011

- 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.

Total Real Return Indexes

January 1802 – December 2010



Source: Siegel, Jeremy, *Stocks for the Long Run* (2008) updated by author.