

# GET AN EDGE: LOOK AT EUROPEAN SMALL CAPS

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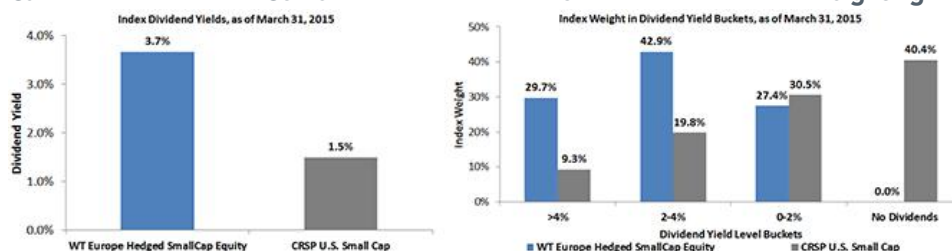
It's difficult to find an edge when investing. In many cases, it comes down to a single characteristic that has the potential to mitigate an important risk. To that end, we offer up European small caps. The edge we see? Their [dividend yields](#).

**How Does Dividend Yield Connect to Total Return?** While a higher starting dividend yield can never guarantee a higher total return, it can start things off with a push in the right direction, because: **Total Return = Dividend Growth + Return from Dividend Valuation Changes + Average Dividend Reinvestment Rate • Return from Dividend Valuation Changes:**

This component of the total return would be positive if price levels were to increase at a faster rate than [dividend](#) levels—in other words, if the [price-to-dividend ratio](#) rose or dividend yield compressed and became lower. The higher starting dividend yield provides cushion and less risk of valuations compressing and detracting from returns.

• **Average Dividend Reinvestment Rate:** This component of the total return is similar to the average dividend yield over the period—so a higher starting value provides the potential for a higher overall average. It is in these ways that we believe a higher starting dividend yield can give an edge in total returns when compared to a lower dividend yield option. **The WisdomTree Europe Hedged SmallCap Equity Index Delivers the Yield Edge** More than three-quarters of euro area small-cap stocks were dividend payers as of March 31, 2015, as compared to only 60% in the U.S.<sup>1</sup>. The [WisdomTree Europe Hedged SmallCap Equity Index](#) focuses on this rich hunting ground of euro area small-cap dividend payers, and through its methodology delivers a higher dividend yield than U.S. small caps. **A Higher Dividend Yield**

**Can Come from Weighting by Dividends**



Source: Bloomberg, with all data as of March 31, 2015. "No Dividends" refers to constituents that did not have a trailing 12-month dividend yield as of March 31, 2015. Past performance is not indicative of future results. You cannot invest directly in an index.

*For definitions of indexes and*

*terms in the chart, please visit our [glossary](#).* • **More than 2x the Dividend Yield:** The WisdomTree Europe Hedged SmallCap Equity Index has a dividend yield that was more than twice that of U.S. small caps. As mentioned earlier, this can signal an important potential edge in terms of total return. • **Almost 75% Weight in Stocks with Dividend Yields above 2%:** It's interesting to see how this dividend yield is achieved—clearly weighting by dividends tilts weight toward stocks with higher yields. <sup>1</sup>Source: Bloomberg.

## Important Risks Related to this Article

Dividends are not guaranteed, and a company's future ability to pay dividends may be limited. A company currently paying dividends may cease paying dividends at any time. Investments focused in Europe are increasing the impact of events and developments associated with the region, which can adversely affect performance. Investments focusing on certain sectors and/or smaller companies increase their vulnerability to any single economic or regulatory development.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended

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You cannot invest directly in an index.

## **DEFINITIONS**

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

**Return from dividend valuation changes** : Refers to the change in the price-to-dividend (P/D) ratio over the period being looked at.

**Average dividend reinvestment rate** : Refers to the difference between the price return and the total return of a particular strategy attributable to dividends.

**Dividend** : A portion of corporate profits paid out to shareholders.

**Price-to-dividend ratio** : Refers to the index price divided by the trailing 12-month dividends.