

# THE SECTOR DIFFERENCES OF MID AND SMALL CAP DIVIDENDS

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"Defensive sectors," typically defined as Consumer Staples, Health Care, Utilities and Telecommunication Services, have led the broad large-cap markets to new highs in 2013. These stocks tend to have lower [volatility](#) and lower "betas," which means they tend to react less to general movements in the market. As a result, one might not expect them to fully participate in the type of large equity market rally we have experienced so far in 2013. For those who view the recent gains and [valuations](#) of these defensive dividend sectors as being potentially stretched, we suggest looking down the size spectrum at the mid- and small-cap dividend payers. When viewing the [WisdomTree MidCap](#) and [SmallCap Dividend](#) Indexes, the mid- and small-cap dividend payers tend to be less exposed to these defensive sectors than are large-cap dividend indexes<sup>1</sup>. Below we review the defensive sector exposures of some dividend focused indexes. **Defensive Sector**

Index	"Defensive" Total	Consumer Staples	Health Care	Telecommunication Services	Utilities
Morningstar Dividend Yield Focus	68.63%	13.67%	23.84%	17.23%	13.89%
Dow Jones U.S. Select Dividend	51.69%	13.33%	4.14%	2.52%	31.69%
S&P High Yield Dividend Aristocrats	41.22%	19.31%	9.63%	3.27%	9.01%
WisdomTree LargeCap Dividend	40.17%	15.93%	11.80%	6.36%	6.08%
NASDAQ US Dividend Achievers Select	32.24%	24.77%	5.51%	0.08%	1.88%
WisdomTree MidCap Dividend	25.90%	4.40%	1.84%	2.82%	16.84%
WisdomTree SmallCap Dividend	23.13%	5.56%	4.43%	1.91%	11.22%

**Tilts:** Sources: Bloomberg, WisdomTree (03/31/13). Past performance is not indicative of future results. Subject to change.

For definitions of

indexes in the chart, visit our [Glossary](#).

- **Large Caps and High-Yield Focus Tend to Over-Weight Defensives** – The large-cap dividend stocks tend to have much larger weight in the defensive sectors than do either the WisdomTree MidCap or SmallCap Dividend Indexes. The [Morningstar Dividend Yield Focus Index](#) has the highest percentage, with nearly 70% weight, in the defensive sectors and its highest exposure in the Health Care sector. The WisdomTree MidCap Dividend Index might make a good complement to that type of exposure, given the fact that it's the least exposed to the Health Care sector of all dividend indexes on this list.
- **Unbalanced Sector Weights** – To achieve such a high over-weight in the defensive sectors, some indexes show significant over-weight in individual sectors. The [Dow Jones U.S. Select Dividend Index](#), for example, has over 31% exposure in the Utilities sector; the Morningstar Dividend Yield Focus Index has almost 24% exposure in the Health Care sector; and the [NASDAQ US Dividend Achievers Select Index](#) has almost 25% exposure in the Consumer Staples sector.
- **The WisdomTree LargeCap Dividend Index** has good representation across all defensive sectors and avoids being substantially over-weight or under-weight in any one particular sector, when compared to the large-cap dividend-focused indexes above. We feel this balanced representation across the different sectors increases the diversification potential and provides potentially broader exposure to the large-cap dividend payers.
- **Different Weighting in Mid and Small Caps** – The WisdomTree MidCap and SmallCap Dividend Indexes both have very noticeable differences in sector weights compared to the large caps above. They both have less total exposure to the defensive sectors, as evidenced by their lower weightings in Consumer Staples, Healthcare and Telecom.

**Diversification Benefits of Mid and Small Caps** It is impossible to know which sector or sector groups will perform the best going forward, so we believe it is important to remain diversified. Complementing large-cap dividend strategies with mid- and small-cap dividends has the potential to provide increased diversification by balancing the sector allocations of the market. Also, for individuals who feel the defensive sectors have moved too much

in early 2013, the mid- and small-cap dividend payers might offer an alternative for capturing the dividend payers without being over-weight in the defensive sectors. <sup>1</sup>Throughout this piece we refer to the large-cap dividend indexes as a group that includes the Morningstar Dividend Yield Focus Index, Dow Jones U.S. Select Dividend Index, S&P High Yield Dividend Aristocrats Index, NASDAQ US Dividend Achievers Select Index and WisdomTree LargeCap Dividend Index. These indexes were selected because they are some of the largest, based on assets tracking the index.

#### Important Risks Related to this Article

You cannot directly invest in an index. Diversification does not eliminate the risk of experiencing investment losses. Dividends are not guaranteed and a company's future abilities to pay dividends may be limited. A company currently paying dividends may cease paying dividends at any time. Funds that emphasize investments in small/mid-cap companies generally experience greater price volatility.

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You cannot invest directly in an index.

## **DEFINITIONS**

**Volatility** : A measure of the dispersion of actual returns around a particular average level.&nbsp;.

**Beta** : A measure of the volatility of a security or a portfolio in comparison to a benchmark. In general, a beta less than 1 indicates that the investment is less volatile than the benchmark, while a beta more than 1 indicates that the investment is more volatile than the benchmark.

**Valuation** : Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.

**WisdomTree MidCap Dividend Index** : A fundamentally weighted index that measures the performance of the mid-capitalization segment of the U.S. dividend-paying market. The Index comprises the companies that constitute the top 75% of the market capitalization of the WisdomTree Dividend Index after the 300 largest companies have been removed. The index is dividend weighted annually to reflect the proportionate share of the aggregate cash dividends each component company is projected to pay in the coming year, based on the most recently declared dividend per share.

**WisdomTree SmallCap Dividend Index** : A fundamentally weighted index measuring the performance of the small-capitalization segment of the U.S. dividend-paying market. The Index comprises the companies that constitute the bottom 25% of the market capitalization of the WisdomTree Dividend Index after the 300 largest companies have been removed. The Index is dividend weighted annually to reflect the proportionate share of the aggregate cash dividends each component company is projected to pay in the coming year, based on the most recently declared dividend per share.