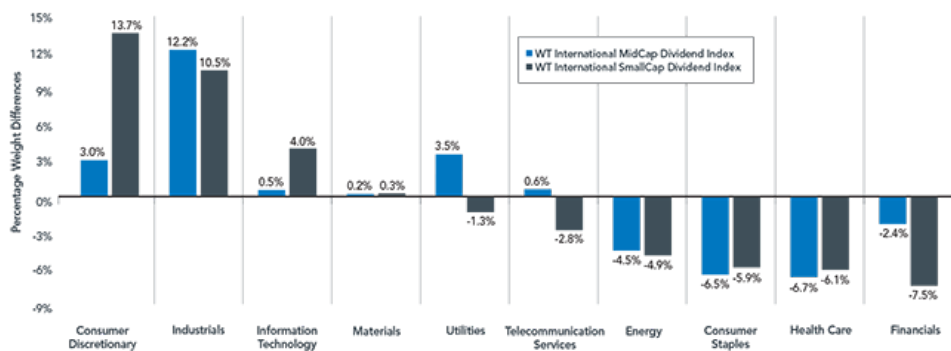


# INTERNATIONAL MID AND SMALL CAPS OFFER SIZE AND SECTOR DIVERSIFICATION

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In my [recent blog](#), I discussed the potential [dividend yield](#) advantage of international equities over domestic equities, as well as the potential yield advantage of international mid and small caps over large caps. Below I review another reason to focus on international mid and small caps: the size and sector diversification they provide. **International Equities Represent Larger Opportunity Set** For starters, based on a dividend analysis, international markets represent a larger investment opportunity set than U.S. markets. Based on the [WisdomTree Global Dividend Index](#), the [Dividend Stream](#)<sup>®</sup> as of the most recent screening date (May 31, 2012) was over \$1 trillion. While the U.S. market made up 29.2% of the total *Dividend Stream*, the developed world ex-U.S. accounted for 53.8% of it. Considering this, we feel most investors tend to have a home bias and are usually over-weight in their own domestic market. Also, when U.S. investors decide to invest internationally, we believe they usually do so through large-cap companies. We believe the mid- and small-cap international dividend payers offer a further set of exposures beyond this more traditional option. For instance, international mid- and small-cap dividend-paying stocks represent just a small percentage of the [MSCI EAFE Index](#), the often-tracked benchmark. **Weight of Stocks in the MSCI EAFE Index<sup>1</sup>:** [WisdomTree International MidCap Dividend Index](#) – 15.3% [WisdomTree International SmallCap Dividend Index](#) – 0.09% Moreover, the mid and small caps display different characteristics than large-cap stocks, as illustrated by their sector differentials. In figure 1, we will examine the sector differences between the WisdomTree International MidCap and SmallCap Dividend Indexes compared to the MSCI EAFE Index.

Figure 1: Analysis of Sector Differentials across Size Segments (compared to MSCI EAFE)



Sources: WisdomTree, Bloomberg (03/31/13)

For definitions of the Indexes, please visit our [Glossary](#).

- **Cyclical Sector Over-weights** – The WisdomTree International MidCap and SmallCap Dividend Indexes tend to have more exposure to two of the more cyclical sectors of the markets—Consumer Discretionary and Industrials.
- **Defensive Sector Under-weights** – Unlike traditional dividend-paying stocks, the WisdomTree International MidCap and SmallCap Dividend Indexes tend to be under-weight in a number of the traditional dividend-paying sectors (Consumer Staples, Health Care and Telecommunication Services).
- **Low Sector Similarities** – Only the Materials sector has less than a 1% difference for both the WisdomTree International MidCap Dividend Index and the SmallCap Dividend Index.

WisdomTree SmallCap Dividend Index when compared to the MSCI EAFE. Half the sectors have at least a 3% weight difference for both WisdomTree Indexes. **Potential Diversification Benefits** Based on a dividend analysis, we feel the opportunity set in the international markets is often overlooked by U.S. investors, especially the mid- and small-cap segment. In our opinion, exposure to international equities is important for providing diversification benefits and increased potential return. Specifically, we think that increased exposure to international mid- and small-cap dividend-paying companies can help increase potential diversification and dividend income. *For more information on the subject, read our research [here](#).* <sup>1</sup>Sources: WisdomTree, Bloomberg (03/31/13).

#### Important Risks Related to this Article

You cannot invest directly in an index. Diversification does not eliminate the risk of experiencing investment loss. 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. Investments in smaller companies may experience greater price volatility.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

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## DEFINITIONS

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

**WisdomTree Global Dividend Index** : WisdomTree's broadest measure of dividend-paying stocks, including firms incorporated in emerging markets, developed international markets and the United States, weighted by cash dividends.

**Dividend Stream** : Refers to the regular dividends per share multiplied by the number of shares outstanding.

**MSCI EAFE Index** : is a market cap-weighted index composed of companies representative of the developed market structure of developed countries in Europe, Australasia and Japan.

**WisdomTree International MidCap Dividend Index** : A fundamentally weighted index that measures the performance of the mid-capitalization segment of the US dividend-paying market. The Index is comprised of the companies that compose 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 International SmallCap Dividend Index** : A fundamentally weighted index measuring the performance of the small-capitalization segment of the US dividend-paying market. The Index is comprised of the companies that compose 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.