

DIVERSIFYING DIVIDEND EXPOSURE WITH SMALL CAPS

Jeremy Schwartz — Global Chief Investment Officer
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U.S. dividend-paying equities are one of the most hotly contested spaces for the development of indexes. However, I'd caution against generalizations that are too wide, because:

- U.S. dividend payers (as represented here by the [WisdomTree LargeCap Dividend Index](#)) as a whole have [valuations](#) that are broadly similar to those of the broad markets (as represented by the [S&P 500 Index](#)).
- Yet many dividend-focused indexes concentrate on a narrow slice of the broader equity market and miss certain dividend payers altogether.
- Dividend-paying stocks can be found in all corners of the market, from traditional high-dividend-yield "value" oriented slices to the "growth" segment of the market.
- I'd encourage the exploration of new growth-oriented segments of the dividend market, given the mix of current valuations and the expected growth potential.

Are Dividend Stocks Expensive? Many question whether high-dividend-yield stocks are expensive due to investors' flocking to dividend stocks with the current low interest rate environment. WisdomTree has a broad array of domestic equity Indexes consisting solely of dividend payers so we can address this question specifically for both large caps and small caps—as well as dividend stocks with greater growth potential relative to broadly inclusive indexes of dividend payers.

	Index	P/E Ratio	Long-Term Earnings Growth Estimates	Dividend Yield	Earnings Yield	Dividend Yield / Earnings Yield
Large-Cap Equities	WisdomTree U.S. Dividend Growth Index	15.1x	12.0%	2.4%	6.6%	35.4%
	WisdomTree LargeCap Dividend Index	14.1x	9.7%	3.0%	7.1%	42.3%
	S&P 500 Index	14.6x	11.1%	2.1%	6.8%	31.3%
Small-Cap Equities	WisdomTree U.S. SmallCap Dividend Growth Index	15.4x	14.9%	2.1%	6.5%	31.9%
	WisdomTree SmallCap Dividend Index	16.6x	10.7%	4.1%	6.0%	67.4%
	Russell 2000 Index	22.5x	9.8%	1.8%	4.4%	40.6%

Sources: WisdomTree, Bloomberg. As of 6/30/2013. You cannot invest directly in an index. Past performance is not representative of future results. S&P 500 represents the large capitalization sector of the broad markets. Russell 2000 represents the small capitalization sector of the broad markets.

For definitions of terms and indexes in the chart, please visit our [glossary](#).

- **Large-Cap Picture:** The WisdomTree LargeCap Dividend Index, which includes the 300 largest regular dividend payers in the United States, has a lower P/E ratio than the S&P 500 Index, which does not consist solely of dividend payers. The [WisdomTree U.S. Dividend Growth Index](#), which focuses on primarily large-cap, dividend-paying equities with growth characteristics, has a slightly higher [P/E ratio](#) than the S&P 500 Index, but it also has higher long-term earnings growth expectations as well as a higher dividend yield. In large-cap equities, it is therefore difficult to classify dividend payers—both broadly and those with growth potential—as “expensive,” if the baseline is the S&P 500 Index.
- **Small-Cap Picture:** The [WisdomTree SmallCap Dividend Index](#), which includes the bottom 25% of the [market capitalization](#) of the [WisdomTree Dividend Index](#), has a lower P/E ratio than the [Russell 2000 Index](#). The [WisdomTree U.S. Small Cap Dividend Growth Index](#), which focuses specifically on those stocks in the WisdomTree SmallCap Dividend Index that have growth characteristics, also has a lower P/E ratio than the Russell 2000 Index, as well as significantly higher long-term earnings growth expectations. Similar to the large-cap picture, the picture of small caps as of June 30, 2013, makes it difficult to broadly classify dividend stocks as “expensive.” We believe that the small-cap segment of the dividend-paying market deserves special attention. In addition to the highest long-term earnings growth expectations of any of the indexes in the chart, it is worth noting that these are the only two U.S. equity Indexes (the WisdomTree SmallCap Dividend Index and the WisdomTree U.S. Small Cap Dividend Growth Index) that focus solely on small-cap dividend payers¹. While the large-cap space is without question much more competitive, looking to the small-cap space may provide a diversification benefit at what we believe to be an attractive price.

Do Dividend Indexes Concentrate in Defensive Sectors? It is important to point out that dividend indexes do not need to concentrate solely in the defensive sectors (i.e., Consumer Staples, Health Care, Telecommunication Services, and

Utilities). In addition to providing exposure to a different capitalization segment of the market, it's quite clear that WisdomTree's small-cap dividend Indexes also can provide very different sector exposures than traditional dividend indexes that concentrate on the large-cap segment of the market.

Dividend-Focused Index	Consumer Discretionary	Consumer Staples	Utilities	Defensive Sectors
WT U.S. SmallCap Dividend Growth Index	25.6%	1.5%	0.0%	10.8%
WT U.S. SmallCap Dividend Index	13.9%	5.9%	10.6%	23.1%
WT U.S. Dividend Growth Index	20.2%	19.0%	0.1%	27.0%
NASDAQ US Dividend Achievers Select Index	13.5%	22.9%	1.2%	32.9%
WT Dividend Index	9.0%	13.6%	6.7%	36.3%
S&P High Yield Dividend Aristocrats Index	9.2%	16.9%	10.2%	39.5%
Dow Jones U.S. Select Dividend Index	9.4%	13.8%	30.5%	50.8%
Morningstar Dividend Yield Focus Index	4.6%	17.9%	13.7%	66.1%

Sources: WisdomTree, Bloomberg. As of 6/30/2013. Subject to change. The columns represent sector weights in the respective indexes.

For definitions of indexes in

the chart, please visit our [glossary](#). • **Defensive Sectors:** The WisdomTree U.S. Small Cap Dividend Growth Index and WisdomTree SmallCap Dividend Index each have less than 25% of their exposure in the defensive sectors. Competing dividend-focused indexes have anywhere from one-third to two-thirds of their exposures here. • **Consumer Discretionary:** If the U.S. economy is indeed on track to recovery, Consumer Discretionary can be a very important sector through which to gain exposure. The WisdomTree U.S. Small Cap Dividend Growth Index has more than 25% of its exposure in this sector. By contrast, Consumer Staples is a sector that is often the top exposure in many large-cap focused dividend indexes, and this sector receives less than 2% weight in the U.S. SmallCap Dividend Growth Index. This is a measure of the dividend landscape diversification this Index brings. **Doing Dividends Differently** WisdomTree continues to believe that there are opportunities in U.S. dividends. When people think about U.S. small caps, we believe that it is time to think beyond the Russell 2000 Index. Dividend-paying small caps offer a completely different exposure, all the while providing growth potential without an expensive valuation relative to the broader market.¹Source: WisdomTree, Bloomberg

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You cannot invest directly in an index.

DEFINITIONS

WisdomTree LargeCap Dividend Index : Measures the performance of the 300 largest companies in the WisdomTree Dividend Index ranked by market capitalization. Weighting is by indicated cash dividends.

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.

S&P 500 Index : Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.

Value : Characterized by lower price levels relative to fundamentals, such as earnings or dividends. Prices are lower because investors are less certain of the performance of these fundamentals in the future. This term is also related to the Value Factor, which associates these stock characteristics with excess returns vs the market over time.

Growth : Characterized by higher price levels relative to fundamentals, such as dividends or earnings. Price levels are higher because investors are willing to pay more due to their expectations of future improvements in these fundamentals.

WisdomTree U.S. Dividend Growth Index : A fundamentally weighted index designed to track the performance of dividend-paying companies in the U.S. that WisdomTree believes have the potential to increase their dividends due to certain factors, which include estimated earnings growth, return on equity and return on assets. Weighting is by indicated cash dividends.

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.

Market Capitalization : Market cap = share prices x number of shares outstanding. Firms with the highest values receive the highest weights in approaches designed to weight firms by market cap.

WisdomTree Dividend Index : Measures the performance of dividend-paying companies incorporated in the United States that pay regular cash dividends and meet WisdomTree's eligibility requirements. Weighted by indicated cash dividends.

Russell 2000 Value Index : measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 Index companies with lower price-to-book ratios and lower forecasted growth values.

WisdomTree U.S. SmallCap Dividend Growth Index (WTSDG) : A fundamentally weighted index designed to track the performance of dividend-paying companies in the U.S. small-cap equity universe that WisdomTree believes have the potential to increase their dividends due to certain factors, which include estimated earnings growth, return on equity and return on assets. Weighting is by indicated cash dividends.