

Diversifying Dividend Exposure with Small Caps

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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%

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%

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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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. Diversification does not eliminate the risk of experiencing investment loss. You cannot invest directly in an index.