

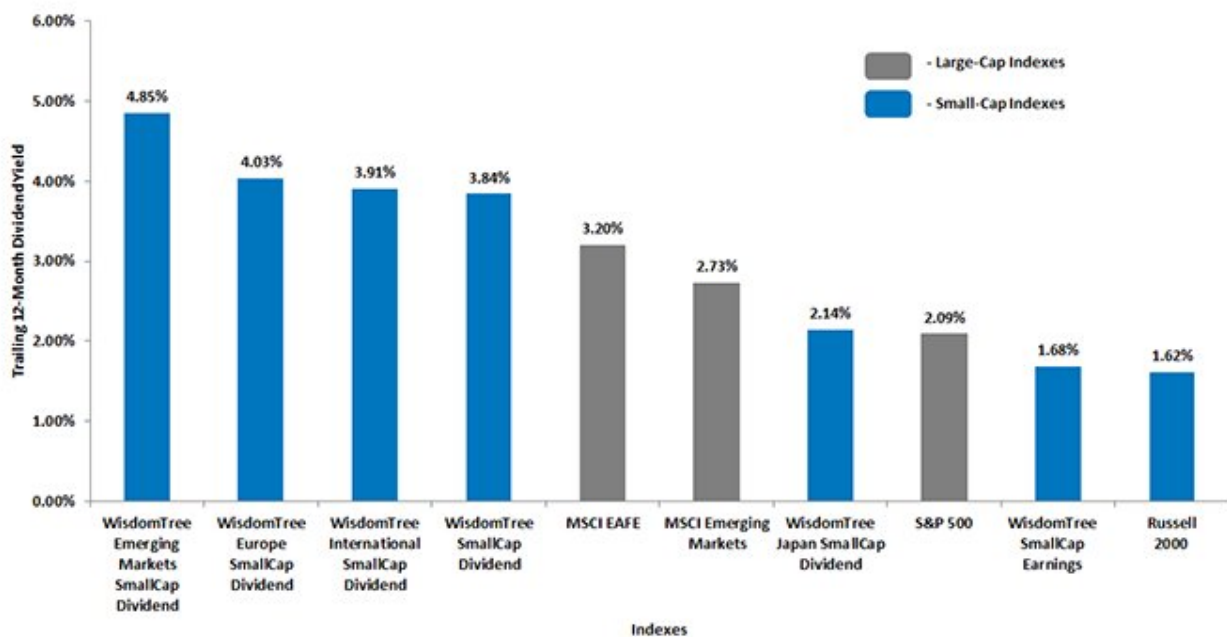
Global Small Caps for Income

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In today's low-interest-rate environment, dividend-paying equities have become an attractive alternative source of income not only because of the current income they provide but also because of their potential for growth. Unfortunately, when investors think of dividends, they tend to think of mature large-cap companies as the primary source. As a result, we feel that many investors mistakenly overlook small-cap equities as attractive income options. **Why Small Caps for Income?** Many investors wrongly assume that small-cap companies can't afford to pay dividends because their main focus is on growth and they need to reinvest their earnings to support that growth. We feel this view stereotypes all small-cap companies, and there are many small-cap companies that have proven business models with relatively stable earnings streams. We believe these companies have the ability to pay out dividends to shareholders and grow them over time. Below we will compare a cross section of WisdomTree's small-capitalization Indexes across the global landscape with common large-cap indexes to highlight the differences in the global small-cap opportunity set. • We will use the [S&P 500](#), MSCI EAFE and MSCI Emerging Markets indexes to represent domestic, developed international and emerging market large-cap equities, respectively. • Also, we will use the Russell 2000 Index to represent a broad measure of U.S. small-cap equities. These indexes were chosen because of their scope in their respective asset classes and their general popularity for tracking and measuring these segments. **Trailing 12-Month Dividend Yield**



Sources: Bloomberg, WisdomTree (09/30/13). Past performance is not indicative of future results. You cannot invest directly in an index. Subject to change.

• **International Indexes Typically Have Higher Yields** – Whether looking at the large-cap or the small-cap indexes above, we typically see higher trailing dividend yields outside the United States. The Russell 2000 Index had the lowest dividend yield of the indexes examined and the WisdomTree Emerging Markets SmallCap Dividend Index had the highest, a full 3 percentage points higher than U.S. small caps.

• **WisdomTree SmallCap Dividend Indexes Exhibited Higher Yields** – WisdomTree's dividend Indexes are rebalanced annually to include only dividend-paying companies, and then the Indexes are weighted by their respective *Dividend Streams*®. While potentially not as broadly focused as market capitalization-weighted indexes, when combined, this approach has tended to produce higher trailing 12-month dividend yields. Greater trailing 12-month dividend yields can be interpreted to mean that the index trades at a more inexpensive valuation than comparable indexes. A disciplined annual rebalancing process back to the underlying fundamentals is important, especially given the tendency for valuations in the small-cap space to become stretched.

• **Dividend Weighting in International Markets** – WisdomTree feels that dividends are an important fundamental measure in determining equity valuations. Furthermore, weighting by dividends in international markets may be even more important because there are many accounting differences across various regions of the world. Dividends paid in cash represent a metric that is independent of accounting differences, making it easier to determine how one firm should be weighted against another in accordance with its fundamentals.

Importance of Valuations From a valuation standpoint, we think it is important to be mindful of the strong performance these indexes have displayed year-to-date and what that means for current portfolio allocations. With market capitalization-weighted indexes, when constituents increase in price compared to other stocks, they are gaining a greater weight and impact on the performance of the index. WisdomTree Indexes employ a rules-based rebalancing mechanism that adjusts relative weights based on underlying fundamentals. During the rebalancing

process, which occurs once per year for each Index, the relationship between share price performance and either dividend growth or earnings growth is measured. We believe this gives WisdomTree Indexes the potential to sell stocks that have become more expensive and buy stocks that have become less expensive relative to their underlying fundamental. In essence, this could be one way to manage risk after a market rally. **Conclusion** Adding exposure to small caps can offer increased diversification and return potential but also potentially increase overall portfolio yield. Weighting eligible companies in the WisdomTree dividend Indexes by dividends enables WisdomTree to potentially increase the trailing 12-month dividend yield compared to market capitalization-weighted indexes that represent similar equity markets. At WisdomTree, we believe this focus on fundamentals is necessary, but that it is even more important after periods of such strong short-term performance. Read the full research [here](#).

Important Risks Related to this Article

Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. Investments in emerging, offshore or frontier markets are generally less liquid and less efficient than investments in developed markets and are subject to additional risks, such as risks of adverse governmental regulation and intervention or political developments.