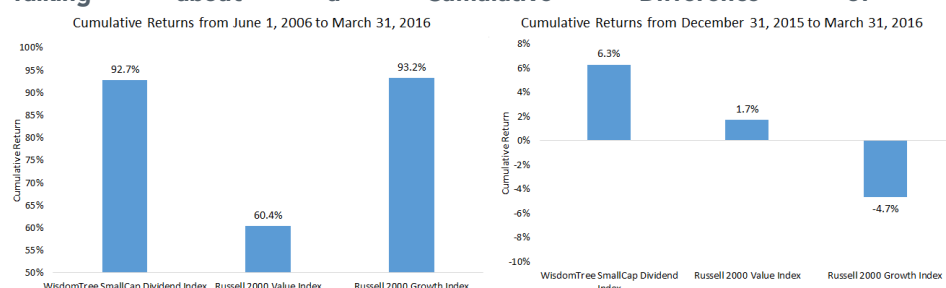


SMALL CAP VALUE HAS BEEN GETTING CRUSHED—UNTIL NOW

Christopher Gannatti — Global Head of Research

05/02/2016

Small-cap [value](#) is an investment strategy that, over long periods, has delivered prolific results. But that doesn't mean that it always outperforms. Every investment strategy can and does succumb to periods of underperformance. Since WisdomTree has launched its [dividend](#)-focused Indexes in June of 2006, small-cap value—defined as the [Russell 2000 Value Index](#)—has distinctly underperformed small-cap [growth](#), defined as the [Russell 2000 Growth Index](#). **We're Talking about a Cumulative Difference of More than 30%**



Source: Bloomberg, with data from 6/1/2006 to 3/31/2016. Past performance is not indicative of future results. You cannot invest directly in an index. Index performance does not represent actual fund or portfolio performance. A fund or portfolio may differ significantly from the securities included in the index. Index performance assumes reinvestment of dividends but does not reflect any management fees, transaction costs or other expenses that would be incurred by a portfolio or fund, or brokerage commissions on transactions in fund shares. Such fees, expenses and commissions could reduce returns.

Small-Cap Dividend Payers

The [WisdomTree SmallCap Dividend Index](#) is a value strategy because very few small-cap growth companies in the United States pay regular dividends. It is therefore remarkable that the WisdomTree SmallCap Dividend Index underperformed the Russell 2000 Growth Index by only half of one percentage point on a cumulative basis over this period of nearly 10 years. Why? 1) **Interest Rates:** If we're thinking of the period from June 1, 2006, to March 31, 2016, the bulk of that period was characterized by extremely low interest rates that only started on the path to normalization in December of 2015. The income-generating potential of the Real Estate and Utilities exposures over the course of the WisdomTree SmallCap Dividend Index's history could explain the desirability of the income from these types of stocks. 2) **Rebalancing:** Every year, the constituents of the WisdomTree SmallCap Dividend Index that raise their dividends more than other U.S. small-cap stocks get greater weight in the Index. The process tends to tilt away from stocks whose prices have appreciated faster than their dividends, and it does this at a regular, annual frequency. **Is 2016 an Inflection Point?** Predicting inflection points where one style of investing goes from outperforming to underperforming is very difficult to do accurately and consistently over time. It is possible, based on the admittedly early performance data for 2016, that such a switch could be under way. Through March 31, 2016, the Russell 2000 Value Index has delivered outperformance on a cumulative basis against the Russell 2000 Growth Index. There is no way to know if this will continue, but we find it interesting that the WisdomTree SmallCap Dividend Index held up very well in what many would consider a non-favorable environment, characterized by the outperformance of growth over value. If value begins to outperform, it stands to reason that the overall environment could be more favorable to a dividend-focused, small-cap U.S. strategy. **Don't Forget about Small-Cap Dividend Payers** The WisdomTree SmallCap Dividend Index has a dividend yield of 3.9%. Only about 20% of its weight had a dividend yield below that of the [U.S. 10-Year Treasury note](#) as of March 31, 2016.¹ If small-cap value is a style that comes into favor in 2016, and if interest rates remain low for an extended period, this could be a very interesting strategy to consider. **Unless otherwise noted, data source is Bloomberg, with data from 6/1/2006 to 3/31/2016.** ¹Source: Bloomberg.

Important Risks Related to this Article

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.

Investments focusing on certain sectors and/or smaller companies increase their vulnerability to any single economic or regulatory development.

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.

For more investing insights, check out our [Economic & Market Outlook](#)

View the online version of this article [here](#).

IMPORTANT INFORMATION

U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.

You cannot invest directly in an index.

DEFINITIONS

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.

Dividend : A portion of corporate profits paid out to shareholders.

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.

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.

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

Interest rates : The rate at which interest is paid by a borrower for the use of money.

Rebalance : An index is created by applying a certain set of selection and weighting rules at a certain frequency. WisdomTree rebalances, or re-applies its rules based selection and weighting process on an annual basis.

U.S. 10 Year Treasury Note : A debt obligation issued by the United States government that matures in 10 years.