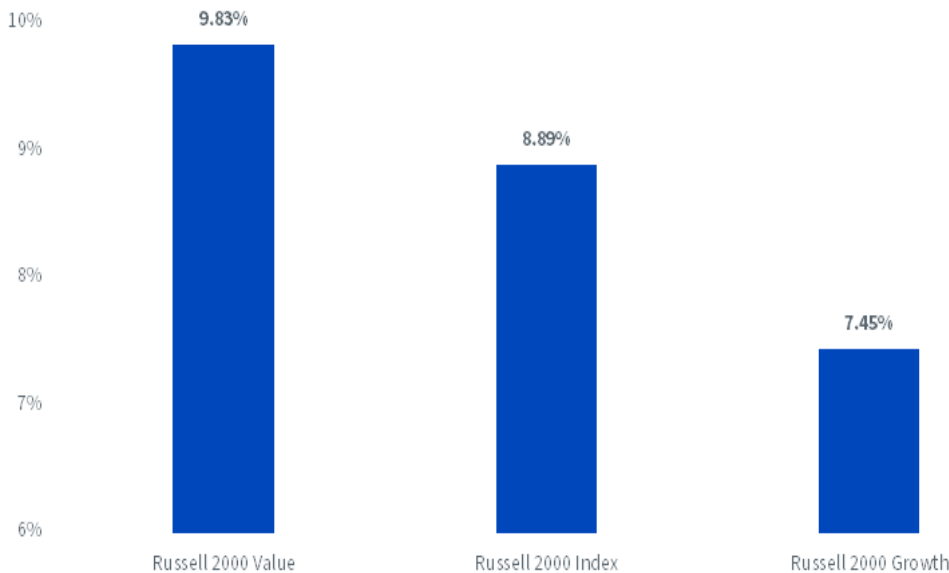
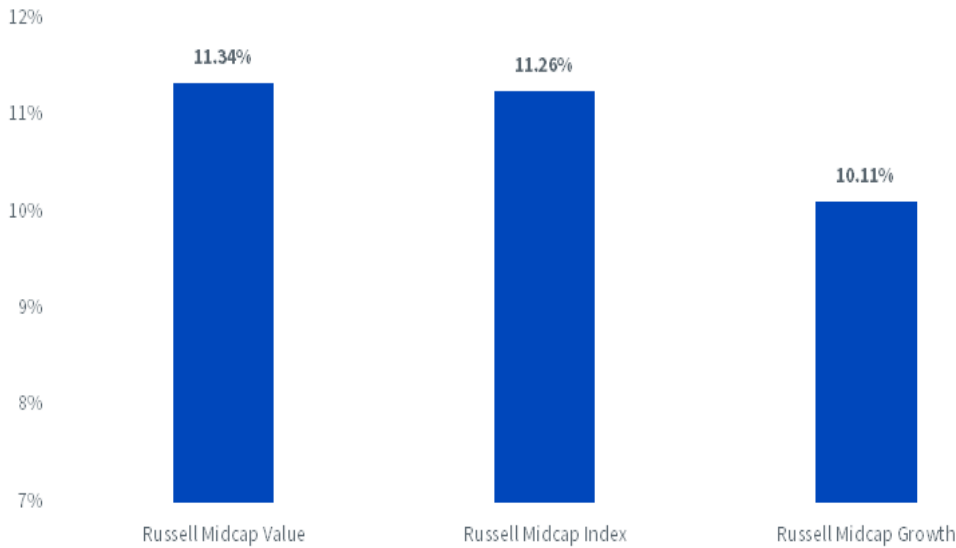

FORGOTTEN MID- AND SMALL-CAP DIVIDENDS

Matt Wagner – Associate Director, Research
06/17/2022

Many investors think of investing down the size spectrum of [mid-](#) and [small caps](#) for premium earnings growth potential—searching for the next Amazon or Alphabet.

Academic research into [long-run historical returns](#) suggests investors are better off bargain hunting. The live track record of the [Russell Value](#) and [Growth Indexes](#) similarly shows that high-growth companies have heavily lagged slower-growth value stocks, particularly in small caps.

Annualized Index Total Returns

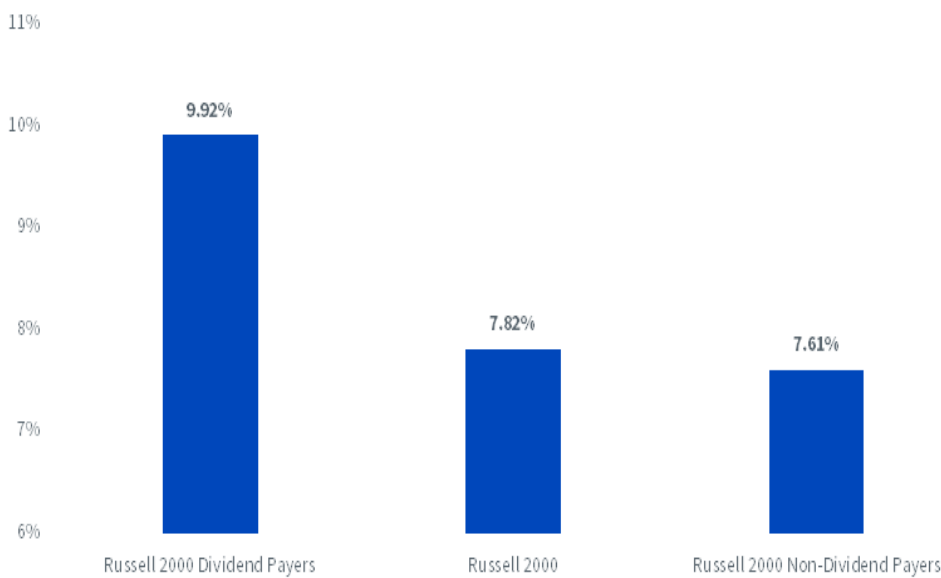
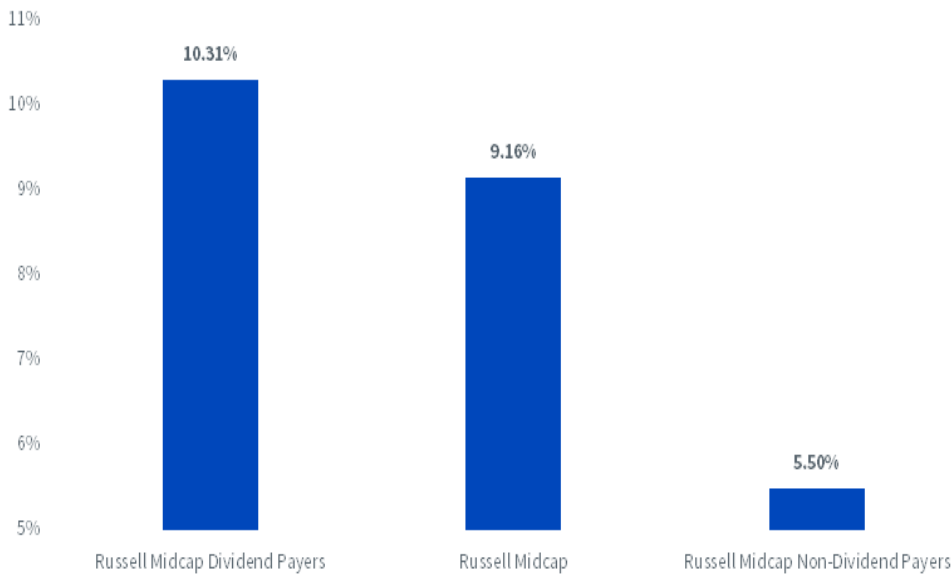


Sources: WisdomTree, Russell. Russell 2000 returns from 5/28/1993–5/31/2022. Russell Midcap returns from 1/31/1995–5/31/2022. Inception date of the Russell 2000 Value and Growth Indexes was 6/1/93. Inception date of the Russell Midcap Value and Growth Indexes was 2/1/95. You cannot invest directly in an index. Past performance is not indicative of future returns.

There are any number of approaches to isolating value stocks—[price-to-earnings](#), [price-to-cash flow](#), [price-to-book](#), [dividend yield](#), etc. One straightforward approach—investing in [dividend](#) payers and avoiding the non-payers—has proven to be an effective strategy within mid- and small caps to manage [valuation](#) risks and improve profitability ratios.

Many investors overlook allocating toward dividends outside of [large caps](#). For investors looking to harvest the [size](#) and [value](#) factor premiums, as well as increase income potential in a challenging [inflationary](#) environment for [bonds](#), mid- and small-cap dividends may prove an attractive solution.

Annualized Total Returns



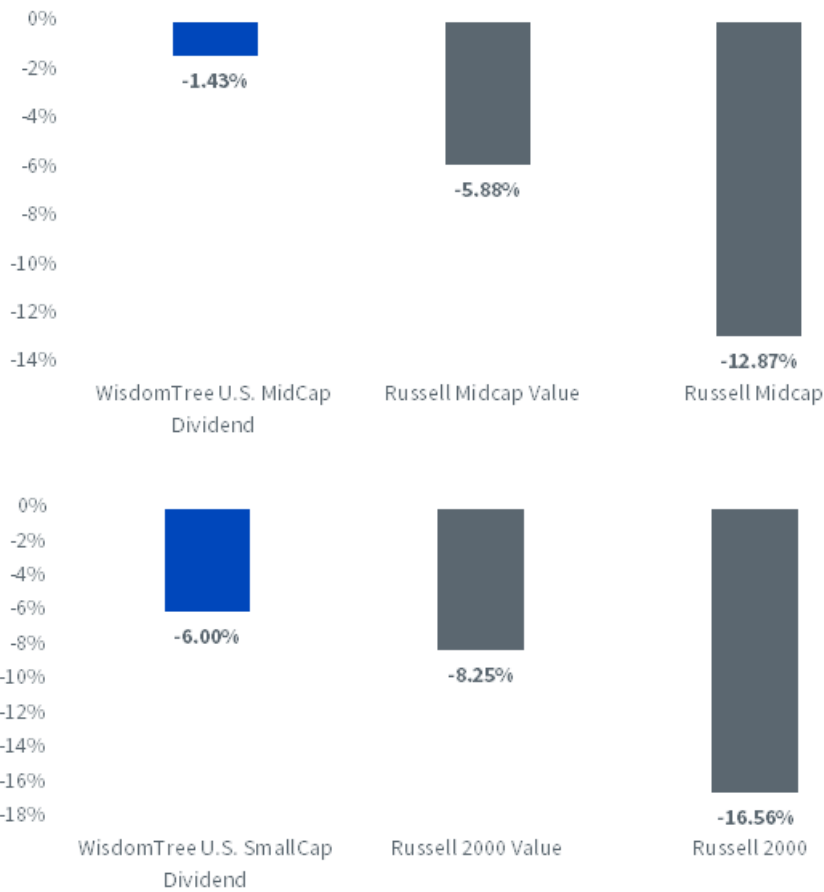
Sources: WisdomTree, Bloomberg, 5/31/00–5/31/22. Dividend portfolios rebalanced annually and market cap-weighted. You cannot invest directly in an index. Past performance is not indicative of future returns.

Characteristics of Mid- and Small-Cap Dividends

The outperformance of value stocks in 2022 has coincided with the outperformance of dividend payers.

WisdomTree’s mid- and small-cap dividend Indexes have handily outpaced their respective value and broad-market [Russell Midcap](#) and [Russell 2000 Indexes](#) through the first five months of the year.

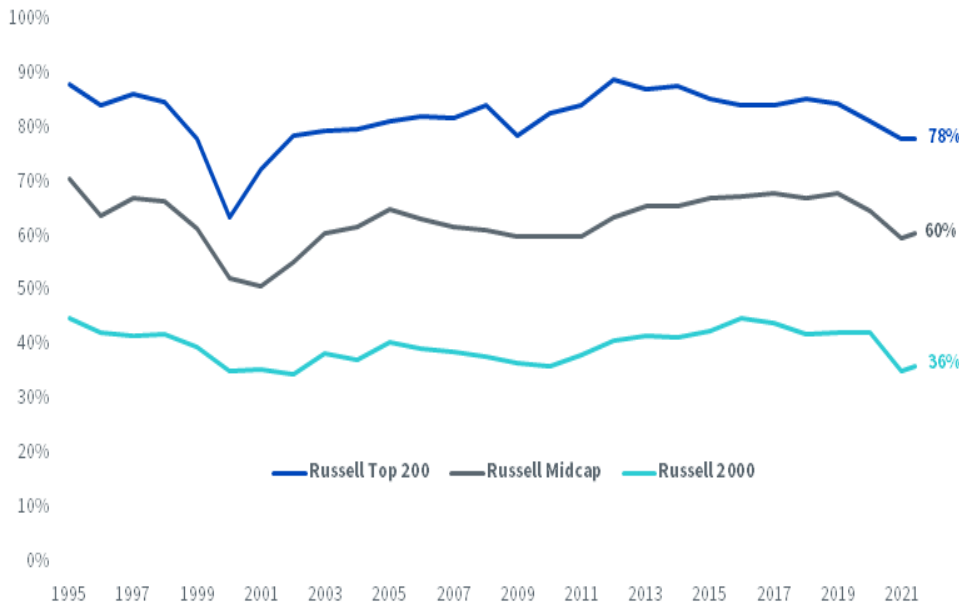
YTD Performance



Sources: WisdomTree, FactSet, Russell, as of 5/31/22. You cannot invest directly in an index. Past performance is not indicative of future returns.

While a greater percentage of large-cap companies pay dividends, there is still a significant percentage of mid- and small-cap companies that pay dividends. About 60% of companies in the Russell Midcap Index (500 out of 822) and about 35% of companies in the Russell 2000 Index (725 out of 2,002) pay dividends.

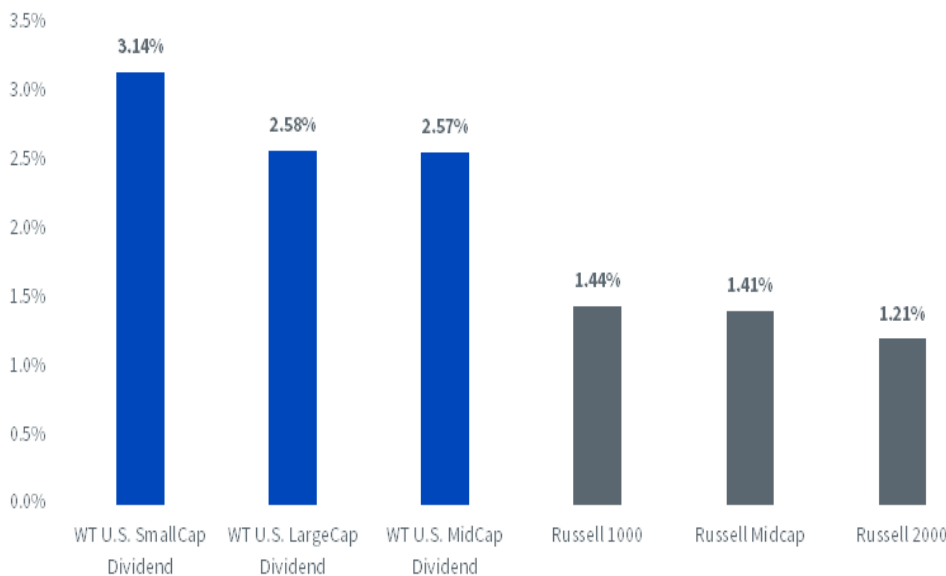
Percentage Index Constituents Dividend Payers



Sources: WisdomTree, FactSet, 12/31/1994–4/29/2022. Past performance is not indicative of future results. You cannot invest directly in an index.

What may be surprising is that investors do not have to sacrifice yield when going down the size spectrum. [WisdomTree’s dividend-weighted U.S. MidCap Dividend Index](#) has a dividend yield roughly equal to the [U.S. LargeCap Dividend Index](#). The [WisdomTree U.S. SmallCap Dividend Index](#) has a yield premium of more than 50 [basis points](#) relative to the large-cap Index.

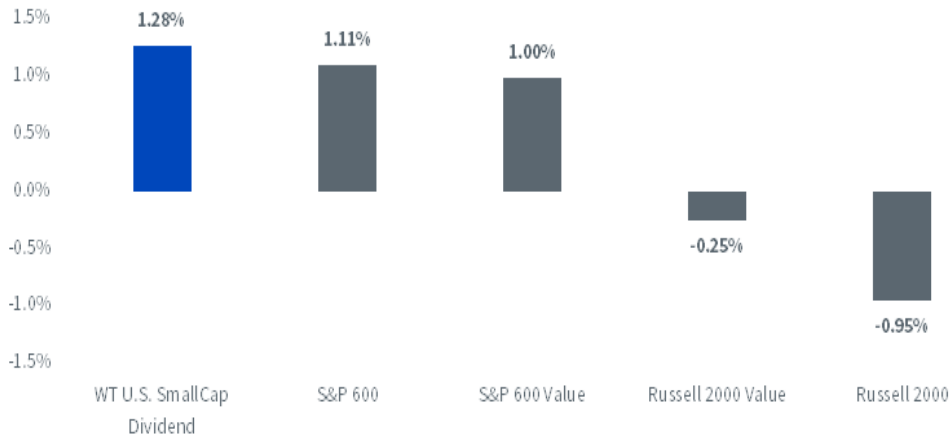
Trailing 12-Month Dividend Yield



Sources: WisdomTree, Russell, FactSet, 5/31/22. You cannot invest directly in an index.

And isolating dividend payers not only results in higher dividend yields, but it reduces exposure to the share diluters that are so prominent in market cap-weighted small-cap indexes. Both the Russell 2000 value and Russell 2000 have negative net [buyback yields](#) because their constituents issue more shares than they buy back.

Trailing 12-Month Net Buyback Yield

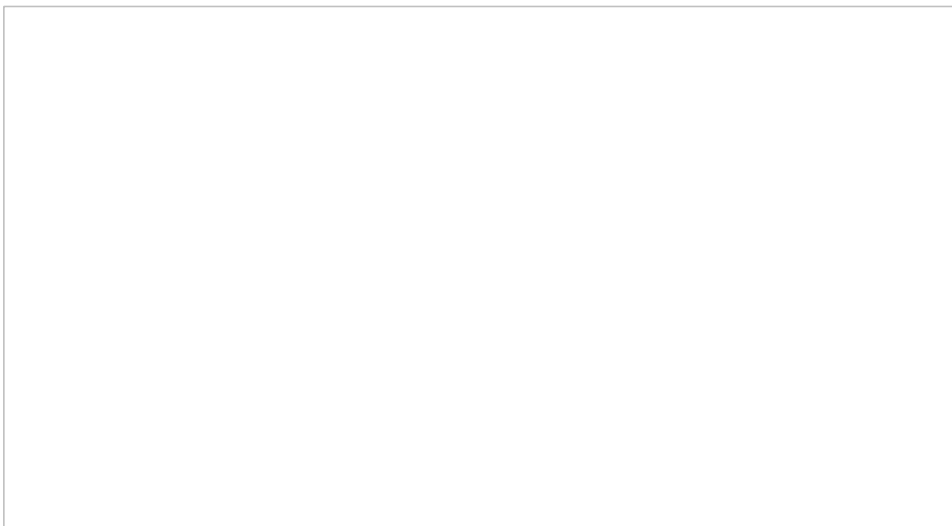


Sources: WisdomTree, Russell, FactSet, 5/31/22. You cannot invest directly in an index.

Removing exposure to non-payers also cuts down on the non-profitable segments of the Russell 2000. About 23% of the weight of the Russell 2000 is in negative earning companies, largely in the biotech industry.

Even looking at the [Russell 2000 Value Index](#), which would theoretically exclude cash-burning growth names, 17% of the weight of that Index is in negative earners.

Percentage Index Weight Negative Earners

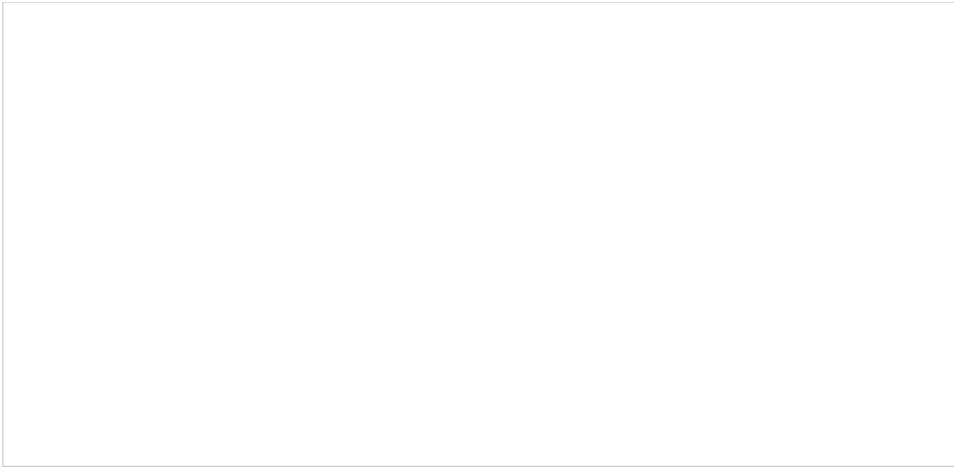


Conclusion: Don't Forget the Dividend Payers

As we can see in the below characteristics, both the mid- and small-cap dividend Indexes offer broad exposures of 341 and 669 holdings, respectively. From a valuation perspective, each Index has discounted price-to-earnings multiples as well as higher dividend yields than the Russell Value Indexes.

With lower exposure to unprofitable companies in the [small-cap universe](#), both dividend Indexes have a premium [return on equity](#) and [return on assets](#).

Index Characteristics



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.

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

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DEFINITIONS

Mid-Cap: Characterized by exposure to the next 20% of market capitalization (after the top 70% have been removed) within the Value, Blend or Growth style zones with the majority of the fund's weight.

Price-to-earnings (P/E) ratio: Share price divided by earnings per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested.

Price-to-cash flow (P/CF) ratio: Share price divided by cash flow per share. Lower numbers indicate an ability to access greater amounts of cash flows per dollar invested.

Price-to-book ratio: Share price divided by book value per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested.

Dividend yields: Refers to the trailing 12-month dividend yield. Dividends over the prior 12 months are added together and divided by the current share price. Higher values indicate more dividends are being generated per unit of share price.

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

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.

Large-Capitalization (Large-Cap): A term used by the investment community to refer to companies with a market capitalization value of more than \$10 billion. Large cap is an abbreviation of the term "large market capitalization". Market capitalization is calculated by multiplying the number of a company's shares outstanding by its stock price per share.

Size: Characterized by smaller companies rather than larger companies by market capitalization. This term is also related to the Size Factor, which associates smaller market-cap stocks with excess returns vs the market over time.

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.

Inflation: Characterized by rising price levels.

Bond: A fixed-income instrument that represents a loan made by an investor to a borrower (typically corporate or governmental).

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

Russell 2000 Index: Measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

Basis point: 1/100th of 1 percent.

Buyback yield: amount of a company's buybacks divided by its market capitalization.

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.

Return on Equity (ROE): Measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

Return on assets (ROA): Firm profits (after accounting for all expenses) divided by the firm's total assets. Higher numbers indicate greater profits relative to the level of assets utilized to generate them.