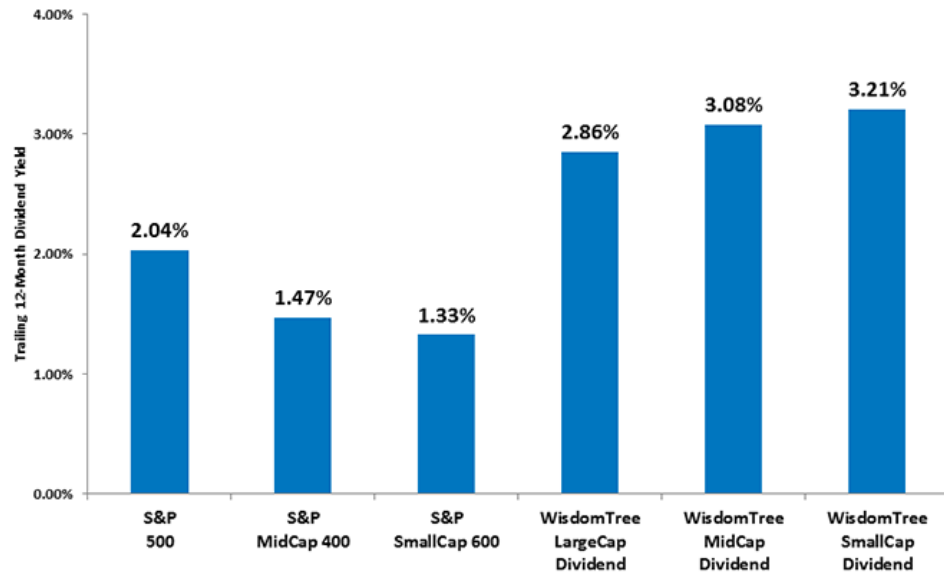


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# DON'T FORGET ABOUT THE "LITTLE GUYS"

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The equity market has been extremely focused on when the [Federal Reserve \(Fed\)](#) is going to raise [interest rates](#), and expectations are consistently changing with the release of any relevant data point. Consensus is that the Fed will abandon its zero interest rate policy at some point over the next year, but the timing of this first interest rate hike has been highly debated. Even more uncertainty surrounds the rate hike trajectory and the longer-term target level of interest rates. What is not debated is the fact that many investors need their portfolios to generate income, and this percentage is expected to increase as the baby boomers transition into retirement. But with interest rates still near record lows across the globe, many investors continue to look beyond traditional asset classes for income generation. We think that they mistakenly overlook mid- and small-cap dividend payers. We believe mid- and [small-cap dividend](#) payers deserve a larger allocation in most investors' long-term portfolios—particularly portfolios targeting income strategies—for both their current income and potential growth characteristics. **In Search of Income: Look to Mid- and Small Caps** We believe that many investors mistakenly assume that mid- and small-cap companies are solely focused on growth and therefore reinvest their earnings instead of paying them out in the form of dividends. When looking at traditional [market cap-weighted](#) indexes for the United States in particular, this assumption seems to be accurate. Going down the size spectrum, from the [S&P 500](#) (large cap) to the [S&P 400](#) (mid-cap) and the [S&P 600](#) (small cap), in the Standard and Poor's index family of market cap-weighted indexes illustrated in figure 1, the indexes that focus on larger market capitalization companies have higher [trailing 12-month dividend yields](#). However, this does not necessarily have to be the case; there are many profitable mid- and small-cap companies that can afford to, and do, pay dividends. Market capitalization-weighted indexes provide the benefit of as broad an exposure as possible to a given universe of stocks, but they do not directly focus on dividends or dividend payers. When WisdomTree applies its domestic dividend methodology, it includes only dividend-paying companies and then weights these constituents based on their [Dividend Streams](#)<sup>®</sup>. These elements tend to produce very different trailing 12-month dividend yields for [WisdomTree's LargeCap, MidCap and SmallCap Dividend Indexes](#). **Figure 1: Market Cap Weighting vs. *Dividend***



Sources: WisdomTree, Standard and Poor's, as of 3/31/15. Past performance is not indicative of future results. You cannot invest directly in an index.

**Stream Weighting**

In the current environment, WisdomTree's domestic Dividend Indexes turn this way of thinking on its head—the WisdomTree SmallCap Dividend Index has a yield advantage over the WisdomTree MidCap Dividend Index, and the WisdomTree MidCap Dividend Index has a yield advantage over the WisdomTree LargeCap Dividend Index. **Figure 2: Market Cap Weighting vs. Dividend Stream Weighting by Sector**

	WisdomTree LargeCap Dividend	S&P 500	Yield Difference	WisdomTree MidCap Dividend	S&P MidCap 400	Yield Difference	WisdomTree SmallCap Dividend	S&P SmallCap 600	Yield Difference
<b>Index</b>	<b>2.86%</b>	<b>2.04%</b>	<b>0.82%</b>	<b>3.08%</b>	<b>1.47%</b>	<b>1.61%</b>	<b>3.21%</b>	<b>1.33%</b>	<b>1.88%</b>
Consumer Discretionary	2.27%	1.51%	0.76%	2.59%	0.99%	1.60%	2.86%	0.84%	2.02%
Consumer Staples	3.05%	2.64%	0.41%	2.01%	1.04%	0.97%	3.42%	1.56%	1.86%
Energy	3.47%	2.97%	0.50%	5.33%	1.27%	4.06%	3.07%	0.69%	2.38%
Financials	2.39%	1.92%	0.47%	3.81%	2.78%	1.03%	4.04%	2.81%	1.23%
Health Care	2.51%	1.47%	1.04%	1.36%	0.33%	1.03%	3.85%	0.31%	3.54%
Industrials	2.56%	2.19%	0.37%	1.82%	1.10%	0.72%	2.63%	0.95%	1.68%
Information Technology	2.35%	1.55%	0.80%	2.04%	0.53%	1.51%	2.26%	0.44%	1.82%
Materials	2.78%	2.00%	0.78%	1.87%	1.82%	0.05%	2.54%	1.09%	1.45%
Telecommunication Service	5.12%	5.06%	0.06%	9.93%	2.26%	7.67%	4.28%	2.08%	2.20%
Utilities	3.69%	3.68%	0.01%	3.40%	3.16%	0.24%	3.27%	3.35%	-0.08%

Sources: WisdomTree, Standard and Poor's, as of 3/31/15. Past performance is not indicative of future results. You cannot invest directly in an index.

Weighting eligible companies in our Indexes by [dividends](#), rather than by market cap, enables us to magnify the effect dividends have on performance and potentially raise a portfolio's trailing 12-month dividend yield. Unlike weighting by dividend yield, which can concentrate weights in the highest-yielding sectors, WisdomTree's process of being broadly inclusive enables our core dividend Indexes to remain properly diversified across sectors while also increasing income. **Managing Valuation Risk** Another important thing to consider when investing in mid- and small-cap companies, which typically trade at higher multiples as a result of their higher growth potential, is managing valuation risk. With market capitalization-weighted indexes, when constituents increase in price compared to other stocks, they gain greater weight and increase their impact on the performance of the index. WisdomTree Indexes employ a rules-based rebalancing mechanism that adjusts relative weights based on underlying dividend trends. During the rebalancing process, which occurs once per year for each Index, the relationship between price change and dividend growth is measured. WisdomTree's Dividend Index rebalance process typically is driven by both:

- Dividend growth: Faster dividend growers see weight increased
- Relative performance: - Underperformers typically see weight increased - Outperformers often see weight decreased

**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.

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**

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## DEFINITIONS

**Federal Reserve**: The Federal Reserve System is the central banking system of the United States.

**Real interest rate**: Interest rate accounting for the impact of inflation. From the nominal interest rate, which does not account for the impact of inflation, the rate of inflation is subtracted to get to the real interest rate.

**Small caps**: new or relatively young companies that typically have a market capitalization between \$200 million to \$2 billion.

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

**Market capitalization-weighting**: 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.

**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.

**S&P 600 Index**: The S&P 600 is an index of small-cap stocks managed by Standard and Poor's. It tracks a broad range of small-sized companies that meet specific liquidity and stability requirements.

**Trailing 12-month year-end dividend yield**: Dividends over the prior 12-months at most recent calendar year-end are added together and divided by the current share price. Higher values indicate more dividends are being generated per unit of share price.

**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.

**WisdomTree MidCap Dividend Index**: A fundamentally weighted index that measures the performance of the mid-capitalization segment of the U.S. dividend-paying market. The Index comprises the companies that constitute the top 75% 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.

**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.

**Valuation risk**: The risk of buying or over-weighting a particular stock that has appreciated significantly in price relative to its dividends, earnings or any other fundamental metric.