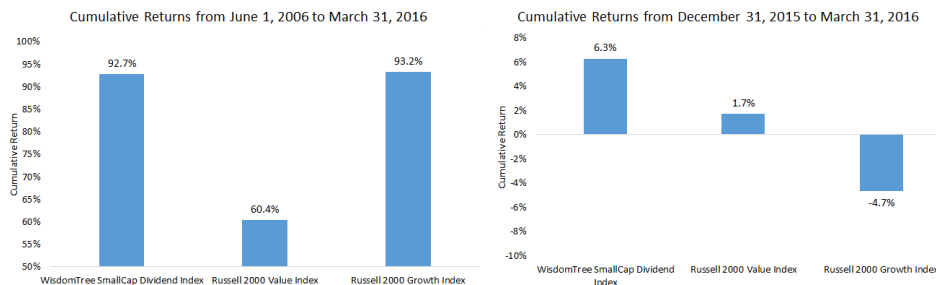


# SMALL CAP VALUE HAS BEEN GETTING CRUSHED—UNTIL NOW

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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**



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.

than 30%

**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.<sup>1</sup> 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.* <sup>1</sup>Source: 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.

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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.