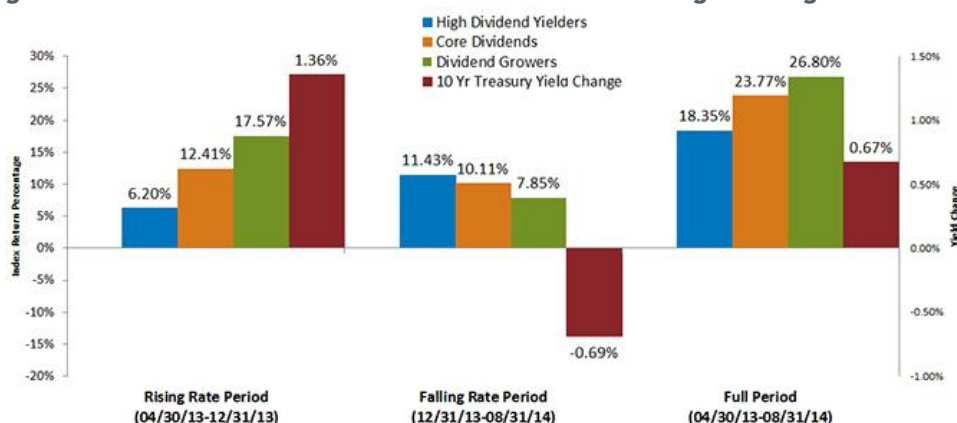


HOW DIVIDEND GROWERS CAN HELP WITH RISING RATES

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In May of last year, longer-term [interest rates](#) in the U.S. rose considerably on just a hint that the [Federal Reserve \(Fed\)](#) might begin scaling back its bonds purchases. Then, at the beginning of 2014, interest rates fell due to weaker U.S. economic data and [deflationary](#) concerns in Europe. These two periods caused interesting differences in performance—and as the Fed plans to end its [asset purchase program](#) in October and prepares for a potential rate hike in mid- to late 2015, we think the lessons from these recent performance divergences can be important for shaping equity allocations. So let's take a look at how the movement in [Treasury yields](#) has impacted various income-oriented investment strategies. The chart below shows the performance of various equity indexes during the rising interest rate period (4/30/13–12/31/13) and the declining interest rate period (1/1/14–8/31/14). I selected this time frame as the 10-year [yield](#) rose by 136 [basis points \(bps\)](#) during the rising rate period and then began a steady decline—losing 69 bps. Overall, the 10-year yield rose by 67 bps.¹ For the period, I looked at the [high dividend yielders](#)², [core dividends](#)³ and the [dividend growers](#)⁴

Indexes . Index Performance During Rising and Falling Rate Periods



Sources: WisdomTree, Bloomberg, 4/30/13–8/31/14. Past performance is not indicative of future results. You cannot invest directly in an index.

And here's what I discovered:

- **Dividend Growers Outperformed over Periods of Rising Rates:** As interest rates began their climb in 2013, dividend growers outperformed dividend yielders and core dividends.
- **High Dividend Yields Outperformed during Falling Rate Period:** As interest rates generally declined in 2014, dividend yielders outperformed. In fact, dividend yielders and core dividends indexes outperformed the [S&P 500 Index](#) (up 9.89%). Lower-yielding dividend growers lagged in the first eight months of the year.
- **Dividend Growers Outperformed over the Entire Period:** Yields rose by 67 basis points over the full period, and during that time, dividend growers outperformed both yielders and core dividends.

Consider Focusing on Dividend Growers Given the prospects of rising interest rates in 2015, and the fact that dividend growers outperformed during these periods, we think it would be wise for investors to consider dividend-growth-focused indexes. So, what should you look for in a dividend growth index? In our opinion, screening dividend-paying equities based on earnings growth and quality factors provides substantial sector differences compared to a broadly focused index or an index that screens based on dividend yield. This is important as we expect the higher growth expectations and increased exposure to [cyclical sectors](#) could become more desirable with improving economic activity and rising rates.

¹Source: Bloomberg, 4/30/13–8/31/14. ²References the WisdomTree Equity Income Index.

³References the WisdomTree LargeCap Dividend Index. ⁴References the WisdomTree U.S. Dividend Growth Index.

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DEFINITIONS

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

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

Deflation : The opposite of inflation, characterized by falling price levels.

Asset purchases : The Fed purchases longer-term securities issued by the U.S. government and longer-term securities issued or guaranteed by government-sponsored agencies such as Fannie Mae or Freddie Mac.

Yield : The income return on an investment. Refers to the interest or dividends received from a security that is typically expressed annually as a percentage of the market or face value.

Basis point : 1/100th of 1 percent.

Qualified dividends : Dividend paid by corporations meeting certain criteria defined by the Internal Revenue Service and therefore eligible in certain instances to be taxed at rates below a tax filer's tax bracket on ordinary income.

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.

Cyclical sectors : Consumer Discretionary, Energy, Industrials, Materials, Financials and Information Technology sectors.