

# WHY A DIVIDEND GROWTH SCREEN MAY BE COUNTERINTUITIVE?

Jeremy Schwartz — Global Head of Research

11/15/2012

The terms “growth” and “value” are entrenched in the equity investment world. And although they typically describe two very distinct sides of the market, many investors look at both growth and value when considering the broad equity markets. I believe it may be useful to extend this framework when considering the vast universe of [dividend-focused indexes](#). Considering that there are so many different types of dividend-focused indexes, to broadly characterize all of them as “value” relative to comparable market capitalization-weighted indexes of similar types of equities may not give the clearest possible picture. Additionally, I think looking at dividend indexes in a growth/value framework may actually help shed light on the differences in performance of these types of indexes over recent periods.<sup>1</sup> To better understand the performance differentials, I wanted to compare a “value” dividend index with a “growth” one. Since the [WisdomTree Equity Income Index \(WTHYE\)](#) focuses on [indicated dividend yield](#) as a primary selection criterion, it is directly sensitive to the relationship that exists between share prices and indicated dividends at each [rebalance](#). Because of this built-in sensitivity to valuation, I chose WTHYE as my value pick. I had to look outside WisdomTree for the growth category, as I needed an index that utilized a growth inclusion screen calling for specific histories of continued dividend growth. In my opinion, the [Mergent Dividend Achievers Select Index](#) (Achievers Select) stands out and is widely followed. This modified [glossary href="Market capitalization-weighted"]market capitalization-weighted[/glossary] index employs a growth screen requiring 10 consecutive years of dividend growth from its constituent stocks. So, what did I find out when I compared the trailing 12-month dividend growth of WTHYE with that of Achievers Select? WTHYE delivered superior trailing 12-month dividend growth over the 1- and 3-year periods, while Achievers Select was superior over the 5-year period and since WTHYE’s live inception on 6/1/2006. From 6/1/2006 through 9/30/2012, the landscape of dividend-paying firms in the U.S. was influenced by financial firms cutting their dividends during the financial crisis, information technology firms initiating and growing their dividends strongly, and financial firms re-initiating and growing their dividends as the crisis abated. Essentially, while Achievers Select had less exposure to financials in the fall of 2008 (the start of the crisis), WTHYE has been able to generate greater exposure to recent dividend growers that have not yet been paying dividends for 10 years (much less growing them for that many years). If achieving strong dividend growth in different market environments is the goal, it may make sense to consider an analysis of what occurs when blending these two approaches together, as each has delivered superior dividend growth during different periods. *To discover more about why these indexes performed so differently or what their combined performance might look like, [read the full commentary](#). Find out more about our [dividend approach to equities](#).* <sup>1</sup>Period is June 1, 2006, through September 30, 2012, limited to the live history of WisdomTree’s U.S. Dividend Indexes.

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](http://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, Kara Marciscano, 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.