

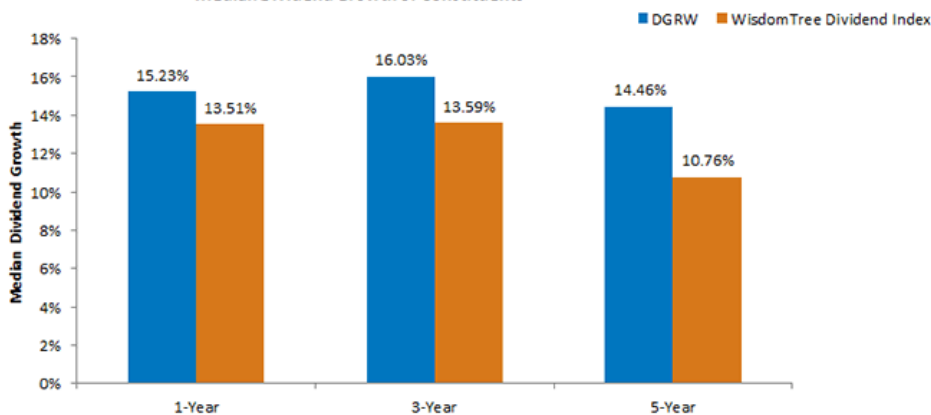
WILL YOU CAPTURE APPLE'S GROWTH IN YOUR DIVIDEND ETF BEFORE 2023?

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Apple rocked the investment world with a blowout quarter, announcing on January 27 record profits of \$18 billion for its latest quarterly report¹. These strong results were not just a record for Apple; it was the greatest single quarter ever reported for any public company.² iPhone sales were very strong, including explosive growth in sales from China, up 70% over the year.³ Apple's strong results mean it now has \$178 billion in cash and [marketable securities](#).⁴ Apple has been using its cash to increase its capital return to shareholders in the form of both [dividend](#) and [buybacks](#). Apple's dividend payment is a relatively new phenomenon—it paid its first quarterly dividend since the mid 1990s in August 2012⁵. On a [split-adjusted basis](#), Apple was paying \$1.51 annualized per share in that first payment.⁶ Two and a half years later, Apple has raised its annual dividend a cumulative 25% to \$1.88, paying 47 cents per quarter for each of the last four quarters.⁷ With these very strong results in the latest quarter, it's reasonable to expect good news in Apple's next dividend announcement. For context, Apple raised its quarterly dividend 7.9% in the second quarter of 2014.⁸ And while the past never guarantees the future, I would be looking for a further acceleration in the dividend hike. **The question for investors: Is your dividend exchange-traded fund (ETF) capturing Apple's strong growth?** It depends if your dividend ETF tracks an index that weights BY dividends or one that weights FOR dividends. For example, the [NASDAQ U.S. Dividend Achievers Select Index](#) is a popular dividend growth index that requires 10 consecutive years of continual dividend growth to qualify for inclusion. However, the [WisdomTree U.S. Dividend Growth Index \(WTDGI\)](#) does not have such a requirement. Why does this matter? Because we believe that dividend indexes with backward-looking growth screens may end up excluding some of the faster growing new dividend payers that may not have 10-year histories of dividend payments, much less dividend growth. The first time Apple could qualify for inclusion in the NASDAQ index is in 2023—and that's if (and only if) it continues to raise its dividend every year between now and then. Apple today is the second largest dividend payer in America behind Exxon Mobile.⁹ And in my opinion, it's likely that Apple will be the largest dividend payer in the world by the end of the year, given the oil price headwinds Exxon is facing and the blowout numbers we just saw from Apple. **A Focus on Quality, Return on Equity (ROE) Lead to Higher Dividend Growth** Key drivers of the stock selection in the WisdomTree U.S. Dividend Growth Index are return on equity, [return on assets](#) and [earnings growth](#). Return on equity, according to finance theory and the [dividend discount model](#), is intimately related to dividend growth. The higher the return on equity, the theory goes, the higher the [sustainable dividend growth](#) of that company. **Theory Meets Reality:** when we look at the constituents of the [WisdomTree U.S. Dividend Growth ETF \(DGRW\)](#), which tracks the performance of WTDGI—and, by design, has a stock-selection model driven by ROE—and compare it to a universe of investable dividend-paying stocks represented by the broad market [WisdomTree Dividend Index](#), which contained more than 1,450 companies as of

December 31, 2014, we see that the stocks within DGRW historically have been growing dividends faster over the last one, three and five years.

Median Dividend Growth of Constituents



Sources: WisdomTree, Bloomberg, with data as of 12/31/14.

Median: The value within a dataset at which 50% of all observations occur above and 50% occur below. We compare DGRW, which tracks the performance of the WisdomTree U.S. Dividend Growth Index, to the WisdomTree Dividend Index because the WisdomTree U.S. Dividend Growth Index applies its quality and growth-focused selection criteria to constituents of the WisdomTree Dividend Index, thereby selecting a subset of dividend payers from the WisdomTree Dividend Index that have the potential to exhibit faster dividend growth. The WisdomTree Dividend Index is meant to include all investable regular dividend-paying companies in the United States and does not have selection criteria focused on exhibiting any specific characteristics.

For current holdings of the WisdomTree Dividend Index, [click here](#). Apple’s strong gains and future dividend growth potential raise the question, “Is my dividend ETF designed to capture today’s (and tomorrow’s) dividend payers, or are these new technology companies going to be missing for a very long time?” We see below that Apple was the second largest exposure in DGRW as of December 31, 2014. Do you really want to wait until 2023 to hold Apple in your dividend ETF?

Top 10 Constituents of DGRW	Sector	DGRW Weight	10 Years of Regular Dividend Growth?	Year of Potential Eligibility for 10 Consecutive Years of Dividend Growth	Included in NASDAQ U.S. Dividend Achievers Select Index?
Exxon Mobil Corp	Energy	5.6%	Yes		Yes
Apple Inc	Information Technology	3.9%	No	2023	No
Microsoft Corp	Information Technology	3.8%	Yes		No
Altria Group Inc	Consumer Staples	2.9%	No	2019	No
PepsiCo Inc	Consumer Staples	2.7%	Yes		Yes
Intel Corp	Information Technology	2.4%	No	2024	No
McDonald's Corp	Consumer Discretionary	2.4%	Yes		No
International Business Machines Corp	Information Technology	2.3%	Yes		Yes
AbbVie Inc	Health Care	2.2%	No	2023	No
Home Depot Inc/The	Consumer Discretionary	1.9%	No	2019	No

Sources: WisdomTree, Bloomberg, with data as of 12/31/14. Subject to change.

For current holdings of the WisdomTree U.S. Dividend Growth Fund (DGRW), [click here](#). ¹Source: “Apple Reports Record First Quarter Results,” Apple Press Info, 1/27/15. ²Source: “Apple Posts the Biggest Quarterly Profit in History,” BBC News Business, 1/28/15. ³Source: “Apple Posts the Biggest Quarterly Profit in History,” BBC News Business, 1/28/15. ⁴Source: “Apple Reports Record First Quarter Results,” Apple Press Info, 1/27/18. ⁵Source: Bloomberg. On February 13, 1996, Apple canceled its quarterly dividend. ⁶Source: Bloomberg. ⁷Source: Bloomberg, with last four ex-dividend dates being 5/8/14, 8/7/14, 11/6/14 and 2/5/15. ⁸Source: Bloomberg, with ex-dates from 2/6/14 to 5/8/14 being measured. ⁹Source: Bloomberg, measured as of WisdomTree’s 11/30/14 Index screening.

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. There are risks associated with investing, including possible loss of principal. Funds

focusing their investments on certain sectors increase their vulnerability to any single economic or regulatory development. This may result in greater share price volatility. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

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

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.

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DEFINITIONS

Marketable securities: Very liquid securities that can be converted into cash quickly at a reasonable price.

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

Buyback: When a company uses its own cash to purchase its own outstanding shares; may positively impact the share price.

Split-adjusted basis: modification made to a security's price that takes into consideration the effect of a split on the total number of shares or units outstanding.

NASDAQ US Dividend Achievers Select Index: Designed to track the performance of dividend-paying companies in the U.S. that have increased their annual dividend payments for the last 10 or more consecutive years.

WisdomTree U.S. Dividend Growth Index: A fundamentally weighted index designed to track the performance of dividend-paying companies in the U.S. that WisdomTree believes have the potential to increase their dividends due to certain factors, which include estimated earnings growth, return on equity and return on assets. Weighting is by indicated cash dividends.

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.

Earnings growth estimates: Bloomberg analysts' long-term earnings growth expectations, which encompass the estimated growth in operating earnings per share over the company's next full business cycle, typically three to five years.

Dividend discount model (DDM): Method of determining whether a company's share price is currently above or below where it could be if future dividend payments were the key determinant, as opposed to other factors.

Sustainable dividend growth: Refers to a value coming from the dividend discount model multiplying the earnings retention rate by the return on equity. It is for purely theoretical purposes and does not imply that companies for which this is computed will definitely grow their dividends at this rate.

WisdomTree Dividend Index: Measures the performance of dividend-paying companies incorporated in the United States that pay regular cash dividends and meet WisdomTree's eligibility requirements. Weighted by indicated cash dividends.