

WELLS FARGO JUST RAISED ITS DIVIDEND 14%. DOES YOUR DIVIDEND ETF OWN IT?

Jeremy Schwartz — Global Chief Investment Officer
01/31/2013

One comforting sign of our recovery from the global financial crisis of 2008–09 is that financial companies are receiving approval from the U.S. government to return greater amounts of their earnings back to their shareholders in the form of both dividends and stock buybacks. Wells Fargo became the latest example of this trend when it recently announced that its March 1, 2013, payment will be 25 cents per share (a quarterly payment, indicating \$1.00 per year).¹ The implications of this dividend trend are important for understanding the nuances of various dividend index stock selection methodologies. J.P. Morgan and Wells Fargo were the early birds in restoring more “normalized” dividend payouts in 2011—essentially getting closer to where they had been prior to the financial crisis. J.P. Morgan was forced to slash its dividend to only 5 cents per share a quarter from its April 30, 2009, payment until its April 30, 2011, payment, when the firm raised its quarterly dividend to 25 cents per share.² Similarly, Wells Fargo cut its dividend to 5 cents per share quarterly from its June 1, 2009, payment until its June 1, 2011, payment, when it raised it to 12 cents per share.³ With these initial dividend raises coming out of the financial crisis, J.P. Morgan was the 15th-largest dividend payer in the United States as of WisdomTree’s November 30, 2011, Index screening. Wells Fargo was the second-highest-ranking financial firm, ranked 22nd, meaning that J.P. Morgan was the only firm in the financial sector to crack the top 20 dividend payers in the U.S. as of November 30, 2011.⁴ To have only one financial firm among the 20 largest dividend payers is a far cry from 2007, when six financial companies were among the top 20. At that time, financials paid approximately \$96 billion in total dividends, which represented nearly one-third of all dividends paid in the United States.⁵ At the bottom of the crisis in 2009, the [indicated dividend stream](#) from financials had collapsed nearly \$70 billion, to only \$29 billion.⁶ Yet more and more financial firms are now starting to increase their dividends. Wells Fargo had a notably large increase in 2012—from its March dividend payment of 12 cents per share to the June payment of 22 cents a share. While still needing significant growth to reach previous highs, financial sector dividends have grown from that annual low of \$29 billion to \$55 billion in 2012, or almost 17% of all indicated dividends in the U.S.⁷ Even though this figure is still almost 43% below its previous peak, Financials is still the sector paying the greatest amount of regular indicated dividends in the United States.⁸

What are the implications for various dividend indexes? There are a number of popular dividend growth indexes (and ETFs, which are designed to track their performance after costs, fees and expenses) with very strict requirements for the history of consecutive years companies must raise their dividends to be eligible for potential inclusion as constituents. For instance: • [Mergent Dividend Achievers Select Index](#) has a requirement that a firm must raise its dividend consecutively for 10 years to be eligible for inclusion. • [S&P High Yield Dividend Aristocrats Index](#) requires 20 consecutive years of dividend increases in order for constituents to gain eligibility. As a result of these stringent requirements, it will be a long time before these indexes will own many of the financial firms that cut their dividends during the global financial crisis. At WisdomTree, we created a family of broadly inclusive Indexes of dividend payers that do not screen out dividend initiators (such as, for example, Apple, which initiated a dividend during the 2012 calendar year) or companies that are returning to paying dividends after temporary cuts or suspensions (as was the case for J.P. Morgan, Wells Fargo and other large U.S. financials). We believe being broadly inclusive of the dividend-paying opportunity set can potentially lead to a better capture of the market’s dividend growth. Wells Fargo is the latest company to illustrate this point—neither the Mergent Dividend Achievers Select Index nor the S&P High Yield Dividend Aristocrats Index can include Wells Fargo until 2022 at the very earliest, provided the company meets the relevant screening criteria at that time. With the financial sector recovering, we may expect to see financials be one of the leading contributors to dividend growth of the market—and backwards-looking dividend growth screens may

counterintuitively hamper the respective indexes' ability to capture that growth. **The following WisdomTree ETFs hold the companies discussed in this article:** The WisdomTree Total Dividend Fund – DTD ([click here for current holdings](#)) The WisdomTree LargeCap Dividend Fund – DLN ([click here for current holdings](#)) ¹Source: Bloomberg. ²Source: Bloomberg. ³Source: Bloomberg. ⁴Source: Bloomberg. ⁵Data refers specifically to firms in the WisdomTree Dividend Index as of 11/30/2007. ⁶Based on the 11/30/2009 screening date of the WisdomTree Dividend Index. ⁷Based on the annual screening date of the WisdomTree Dividend Index (11/30/2012). ⁸Source: Bloomberg, as of the 11/30/2012 Index screening date. Universe is the WisdomTree Dividend Index.

Important Risks Related to this Article

Dividends are not guaranteed and a company's future abilities to pay dividends may be limited. A company currently paying dividends may cease paying dividends at any time. You cannot invest directly in an index.

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.

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)

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, 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.