HAVE YOUR DIVIDEND STRATEGIES KEPT UP IN A POST-BREXIT WORLD?

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Despite recent headwinds, dividend strategies continue to attract interest, as dividends themselves have been growing steadily. Additionally, with bond yields broadly still coming off their historical lows, investors are looking for solutions that provide income that is sustainable and can grow with the market.

In the search for yield, many investors have embraced mutual funds, both active and passive, to achieve their desired equity income exposure. However, the largest dividend-focused managers in the space haven't stacked up well to traditional benchmarks over the last few years.

This is partly due to the rise in interest rates since mid-2016 and the fact that equity income-focused managers typically allocate to more defensive and interest rate-sensitive stocks that have struggled to keep up with the S&P 500 Index. However, it's curious that global interest rates are rising despite increasing geopolitical risk. In fact, the UK's referendum on EU membership (aka Brexit) was held on June 23, 2016. In the U.S., 10-year bond yields bottomed on July 8, 2016.

In our view, income-oriented strategies have underperformed due to their persistent under-weights to the technology sector. Historically, tech has a short track record of paying dividends in comparatively small amounts. However, what may surprise people is that, on average, the largest income-focused money managers are currently yielding less than what an investor could get from broad market exposure alone.

The 10 Largest Equity Income Managers: $319 Billion of Assets Lagging the Market

We did a study of the 10 largest mutual funds in the Equity U.S. Income Lipper Category, a group that represents approximately 18% of the entire category's AUM (or $319 billion of the $1.79 trillion of the total assets under management). We noticed that not a single equity income manager in this group has outperformed the S&P 500 since the Brexit vote. In fact, they have lagged, on average, in performance in nearly all commonly compared periods.

Even more surprising is that, when looking at the current trailing 12-month yields for these funds, these managers have struggled to keep up with the overall market's dividend yield. One might expect a fund that is income focused to, at the very least, provide an investor with yields competitive to those from pure beta/benchmark exposure.

There's Quality in Dividends

In our view, WisdomTree's U.S. Quality Dividend Growth Fund (DGRW) provides a compelling alternative to these traditional equity income managers.

DGRW has a trailing 12-month yield of 2.22%, which surpasses both the average (and weighted average) of the 10 largest Equity U.S. Income Lipper funds and the S&P 500.

More notably, DGRW's performance since Brexit has surpassed these funds considerably, providing better tracking to the S&P 500 benchmark at an expense ratio that is a fraction of what mutual funds are charging.[1]

Comparison to Top 10 Mutual Funds by AUM

	As of 7/31/18					
Equity U.S. Income Lipper Category	Net Expense Ratio	Trailing 12-Month Yield	Q2 2018 Return	YTD Return	1-Year Return	Return Since "Brexit" (6/23/16)
DGRW	**0.28%**	**2.22%**	**2.04%**	**4.35%**	**17.66%**	**17.99%**
Top 10 Mutual Funds (by AUM) Weighted Average	0.86%	1.44%	2.04%	4.19%	13.26%	14.90%
Top 10 Mutual Funds (by AUM) Equally Weighted	1.83%	1.81%	1.92%	4.13%	12.91%	14.43%
S&P 500 Index	--	*1.84%*	*3.43%*	*6.47%*	*16.24%*	*17.94%*
# of Top 10 Funds that Outperformed S&P 500			0	1	0	0
DGRW vs. Top 10 (Weighted Average)	-0.58%	0.78%	0.01%	0.16%	4.39%	3.09%
DGRW vs. Top 10 (Equally Weighted)	-1.55%	0.40%	0.13%	0.22%	4.75%	3.56%
DGRW vs. S&P 500 Index	--	0.38%	-1.39%	-2.12%	1.42%	0.05%

Sources: WisdomTree, Lipper, Bloomberg, as of 7/31/18

Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Performance data for the most recent month-end is available at wisdomtree.com.

WisdomTree shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Total returns are calculated using the daily 4:00 p.m. EST net asset value (NAV). Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where Fund shares are listed. Market price returns do not represent the returns you would receive if you traded shares at other times.

For standardized performance of DGRW, please click here.

Market Backdrop

This is undoubtedly a challenging macroeconomic climate to be investing in. Interest rates have risen from their mid-2016 lows, while geopolitical risk remains elevated.

Historically, investors have rotated to more defensive and higher-quality strategies during late cycles. We would argue that you can target the quality segment of the market while still benefiting from dividend payers. Dividend and value strategies have lagged the market over the last few years. However, adding a quality-focused tilt to the traditional value strategy may be prudent to help generate better future performance.

We believe that by focusing more on fundamentally sound companies poised for dividend growth, and less on who pays the highest dividends, investors can strike the perfect balance between quality and growth in their overall equity income exposure.

Traditional dividend strategies with backward-looking growth screens may fail to capture these opportunities.

Why we believe in dividend growers for the current environment.

[1]DGRW's expense ratio is 0.28%. Ordinary brokerage commissions apply.

Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. Funds focusing their investments on certain sectors may be more vulnerable 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.

To learn more about exchange-traded products (ETFs) and mutual funds, please visit this WisdomTree article that explains in great detail the differences and similarities between both fund structures that investors need to know about.

Sources: Thomson Reuters Lipper, WisdomTree, Bloomberg, as of 7/31/18, unless otherwise stated. The analysis uses the top 10 largest mutual funds (by AUM) in the Equity U.S. Income Lipper Category. For funds with multiple share classes, the share class with the highest trailing 12-month yield was used for conservative comparison purposes. Only funds with publicly available data and a live history of at least 12 months were used in the analysis. "Equity Income Funds" as classif ied by Thomson Reuters Lipper are "Funds that, by prospectus language and portfolio practice, seek relatively high current income and growth of income by investing at least 65% of their portfolio in dividend-paying equity securities."

For the top 10 holdings of DGRW please visit the Fund's fund detail page at https://www.wisdomtree.com/investments/etfs/equity/dgrw

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

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DEFINITIONS

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

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.

Active : Funds that attempt to outperform the market by selecting securities a portfolio manager believe to be the best.

Passive : Indexes that take a rules-based approach with regular rebalancing schedules that are not changed due to market conditions.

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

Defensive characteristics : Greater exposure to the so-called more defensive sectors, especially Telecommunication Services and Utilities.

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.

Brexit : an abbreviation of "British exit" that mirrors the term Grexit. It refers to the possibility that Britain will withdraw from the European Unio.

10-year government bond yield : Yields on the 10 year government debt security.

Trailing 12-month dividend yield : Dividends over the prior 12-months are added together and divided by the current share price. Higher values indicate more dividends are being generated per unit of share price.

Beta : A measure of the volatility of a security or a portfolio in comparison to a benchmark. In general, a beta less than 1 indicates that the investment is less volatile than the benchmark, while a beta more than 1 indicates that the investment is more volatile than the benchmark.

Quality : Characterized by higher efficiency and profitability. Typical measures include earnings, return on equity, return on assets, operating profitability as well as others. This term is also related to the Quality Factor, which associates these stock characteristics with excess returns vs the market over tim.

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 tim.