

# DIVIDENDS FOR DEFENSIVE VALUE

**Matt Wagner — Associate Director, Research**

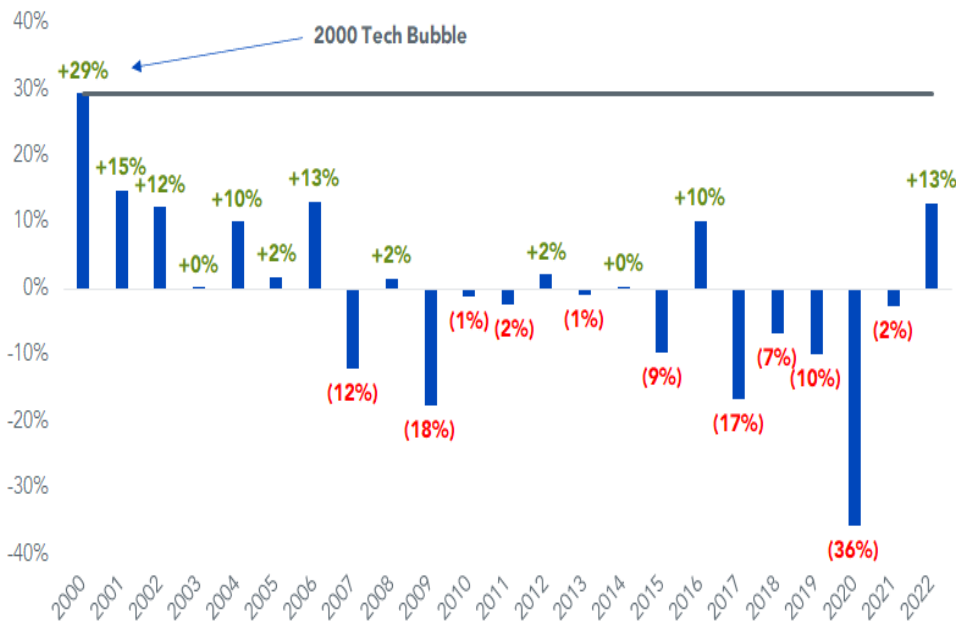
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If history is any guide, [value's](#) new run may just be getting started.

After the bursting of the tech bubble in 2000, value went on a stretch of seven consecutive years of outperformance. That was followed by [growth](#) leadership for 11 of the last 15 years.

Through the first half of the year, value is on pace for its best performance relative to growth since before the Financial Crisis.

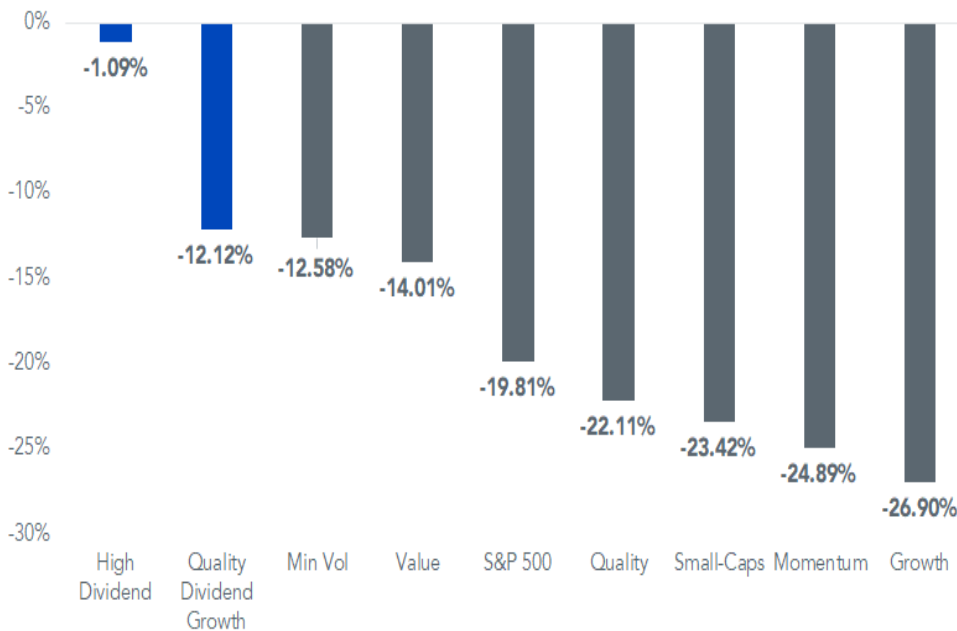
## Russell 1000 Value vs. Russell 1000 Growth



Sources: WisdomTree, Russell, 12/31/1999–7/14/2022. Positive returns indicate Russell 1000 Value outperforming Russell 1000 Growth. Negative returns indicate Russell 1000 Value lagging Russell 1000 Growth. You cannot invest directly in an index. Past performance is not indicative of future returns.

[Dividends](#) as a measure of value—and specifically, high dividends—have had an even stronger six-month run.

## Year-to-Date Index Performance



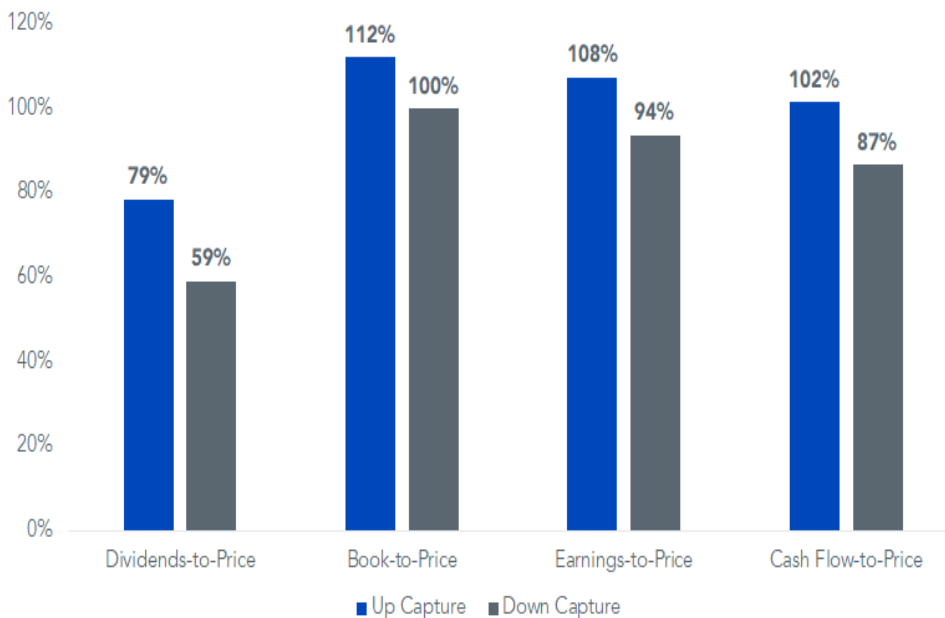
Sources: WisdomTree, FactSet, Russell, MSCI, S&P, as of 7/14/22. You cannot invest directly in an index. Past performance is not indicative of future returns. High Dividend: WisdomTree U.S. High Dividend Index. Quality Dividend Growth: WisdomTree U.S. Quality Dividend Growth Index. Value: Russell 1000 Value Index. Min Vol: MSCI USA Minimum Volatility Index. Quality: MSCI USA Sector-Neutral Quality Index. Small-Caps: Russell 2000 Index. Momentum: MSCI USA Momentum Index. Growth: Russell 1000 Growth Index.

Traditionally, investing via dividends is a more defensive approach to value—more over-weight in Consumer Staples and Utilities and less dependent on the more [cyclical](#) Financials sector (which increasingly uses more discretionary [share buybacks](#) for payouts).

This year, high dividends have also had the tailwind of being over-weight in Energy, the only positive [S&P 500](#) sector for the year.

This “defensive value” nature of high dividends can be seen from the [down-capture](#) ratio of just 59% for a value portfolio sorted by [dividend yield](#). A portfolio sorted on [book-to-price](#) (the most traditional academic measure of value) has a down-capture rate of 100%.

**Value Portfolio Up/Down Capture vs. Market**

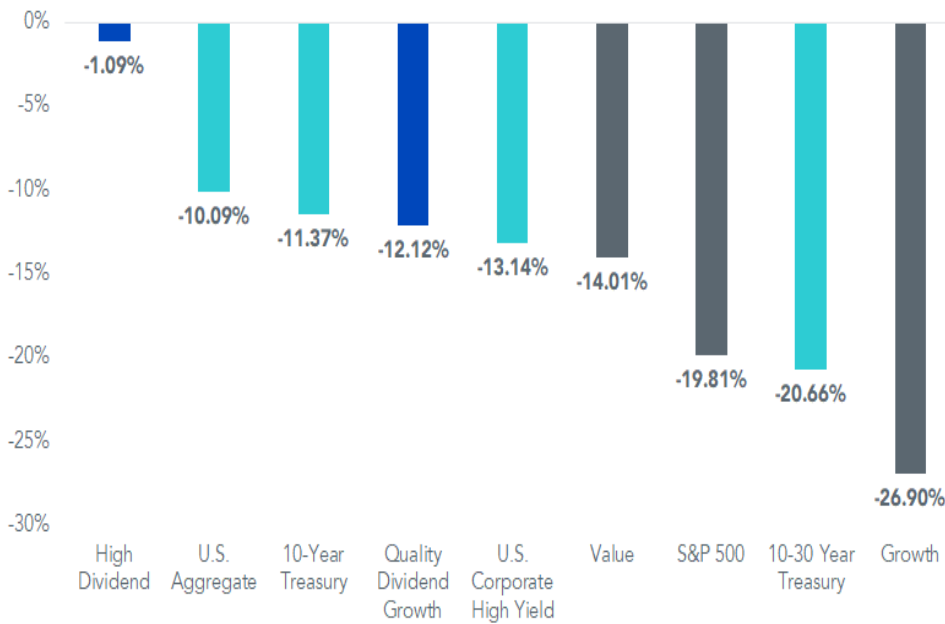


Sources: WisdomTree, Kenneth French Data Library, 6/30/1963–4/30/2022. Period selected based on data availability. Dividends-to-Price, Book-to-Price, Earnings-to-Price and Cash Flow-to-Price are the HI 20 portfolios for each respective ratio from the Kenneth French Data Library. The Market portfolio is representative of all publicly listed U.S. equities firms incorporated in the U.S. and listed on the NYSE, AMEX or NASDAQ. Past performance is not indicative of future returns.

With [volatility](#) elevated, sluggish growth expectations and high [inflation](#) now entrenched in the collective psyche of investors, high dividends have been a haven not just compared to equities but fixed income as well.

As a result of this environment of seemingly nowhere to hide for asset allocators, high-dividend ETFs have taken in a record \$25 billion in assets so far this year.

**Year-to-Date Index Performance**



Sources: WisdomTree, FactSet, Russell, MSCI, S&P, Bloomberg, as of 7/14/22. You cannot invest directly in an index. Past performance is not indicative of future returns. High Dividend: WisdomTree U.S. High Dividend Index. Quality Dividend Growth: WisdomTree U.S. Quality Dividend Growth Index. Value: Russell 1000 Value Index. U.S. Aggregate = Bloomberg US Aggregate Bond Index. U.S. Corporate High Yield = Bloomberg US Corporate High Yield. Growth: Russell 1000 Growth Index.

**Avoiding Value Traps**

Using dividends as a measure of value has a key advantage over measures like earnings or book value in times of uncertainty—a dividend is an unambiguous measure of value that is insulated from aggressive accounting practices.

But some dividend payouts are less stable than others.

To account for the risk of investing in dividend payers that have deteriorating prospects of being able to maintain or grow their dividends, WisdomTree’s dividend Indexes have a composite risk screen to weed out potential value traps.

Companies that fall within the bottom decile of a [composite risk score \(CRS\)](#), which is composed of an equally weighted score of the below two factors, are not eligible for inclusion in our Indexes.

1. Quality Factor – determined by static observations and trends of [return on equity \(ROE\)](#), [return on assets \(ROA\)](#), gross profits over assets and [cash flows](#) over assets. Scores are calculated within industry groups.
2. Momentum Factor – determined by stocks’ risk-adjusted total returns over historical periods (6 and 12 months).

In addition to screening out the riskiest decile of companies based on the CRS, we have also included a screening of the highest-yielding companies (the top 5%) that also have below-average (bottom five deciles) risk scores. Prior to a dividend cut, market participants will typically price a dividend as unsustainable, causing share prices to drop and the yield to skyrocket.

Earlier this year, we highlighted the [AT&T dividend cut](#) as a live case study of the type of dividend cuts our risk screen was designed to avoid.

**Conclusion**

Most of the pain in U.S. equities this year has been felt by non-dividend payers relative to dividend payers. Going forward, should we see material weakness in the economy, investors may begin to focus on the safety of dividend payouts.

In this type of slow (or negative) growth backdrop, our composite risk screens are aimed to mitigate exposure to distressed companies with unsustainable dividend payouts.

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.**

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You cannot invest directly in an index.

## DEFINITIONS

**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 time.

**Growth** : Characterized by higher price levels relative to fundamentals, such as dividends or earnings. Price levels are higher because investors are willing to pay more due to their expectations of future improvements in these fundamentals.

**Russell 1000 Value Index** : A measure of the large-cap value segment of the U.S. equity universe, selecting from the Russell 1000 Index.

**Russell 1000 Growth Index** : A measure of the large-cap growth segment of the U.S. equity universe, selecting from the Russell 1000 Index.

**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.

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

**Share buybacks** : Firms using cash to purchase their own outstanding shares; may positively impact the share price.

**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.

**Down Capture** : Measure of the performance of an investment relative to a benchmark index during a down market.

**Dividend yield** : A financial ratio that shows how much a company pays out in dividends each year relative to its share price.

**Price-to-book ratio** : Share price divided by book value per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested.

**Volatility** : A measure of the dispersion of actual returns around a particular average level.&nbsp;nbsp;.

**Inflation** : Characterized by rising price levels.

**Composite risk score** : A term that refers to combining multiple factors—for example quality and momentum—to quantify the potential riskiness of a security relative to comparable companies.

**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.

**Cash flows** : a measure of how much cash a business generates after taking into account all the necessary expenses, including net capital expenditures.