

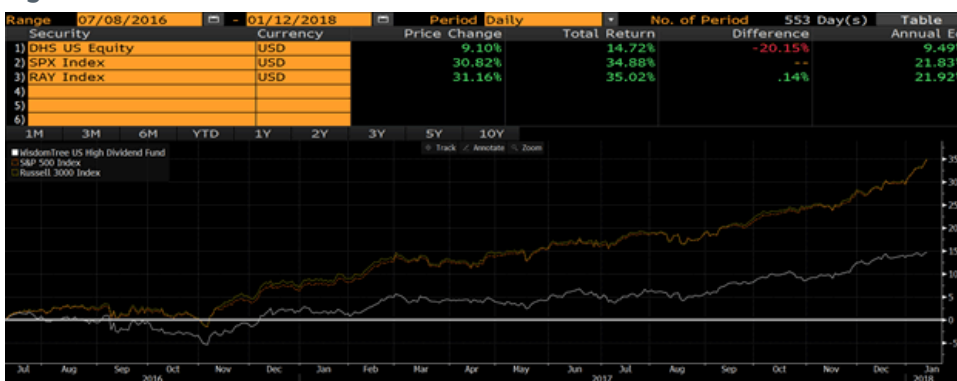
DHS: BUCKING '18 STREET CONSENSUS

Jeff Weniger — Head of Equity Strategy
01/18/2018

Ask the market what fate awaits stocks with high [dividends](#), and the answer often lies in the outlook for [interest rates](#). This is logical. When bond [yields](#) rise, the incentive to own stocks that offer higher dividends wanes, and vice versa. Fortunately for the [WisdomTree U.S. High Dividend Fund \(DHS\)](#), a [rising rate](#) environment hasn't hit the market in recent years, right? Actually, wrong.

In the summer of 2016, [U.S. 10-Year Treasury note yields](#) collapsed to 1.359%, and they have subsequently risen more than a full point, to 2.55%.¹ The pain in yield-oriented DHS has been palpable (figure 1).

Figure 1: Performance Since 2016 Low in 10-Year T-Note Yield



Source: WisdomTree, Bloomberg. Performance through 1/12/2018. Past performance is not indicative of future results. SPX Index: S&P 500 Index. RAY Index: Russell 3000 Index. You cannot invest directly in an index. Index performance does not represent actual fund or portfolio performance. A fund or portfolio may differ significantly from the securities included in the index. Index performance assumes reinvestment of dividends but does not reflect any management fees, transaction costs or other expenses that would be incurred by a portfolio or fund, or brokerage commissions on transactions in fund shares. Such fees, expenses and commissions could reduce returns. WisdomTree, its affiliates and their independent providers are not liable for any informational errors, incompleteness or delays or for any actions taken in reliance on information contained herein.

Click [here](#) for DHS standardized performance.

The thing is that right now there is a remarkably crowded Wall Street consensus that U.S. 10-Year T-note yields will continue to rise in 2018, so much so that predictions by 54 out of 61 economists compiled by Bloomberg in January see them going higher. In fact, not one economics team put a "1" as the first digit on the yield for the end of 2018. This is a crowded consensus.

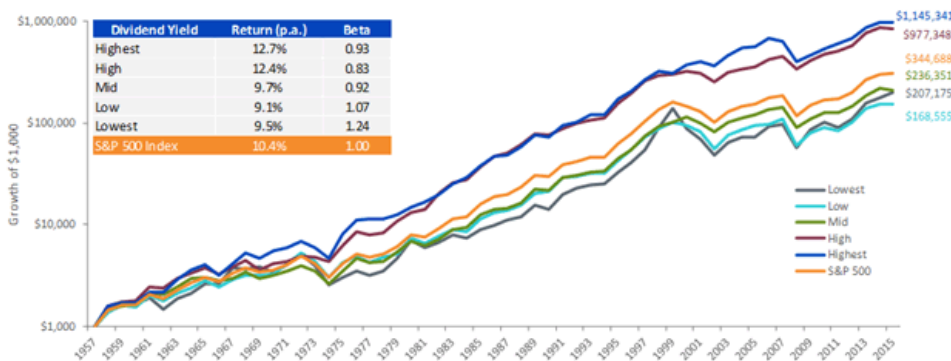
If they are right, more trouble is probably in store for DHS compared to broad U.S. equity indexes. However, if they are proved wrong, which happens too often for comfort when the consensus is lopsided, we could be looking at a [value](#) play for the few who entered 2018 with a contrarian view on rates. And rates may not even have to move lower to aid DHS; it could be as simple as a situation in which rates do not move *much* higher, or that they chop sideways, disappointing the economists' collective forecasts and surprising the masses.

The “Siegel Chart”: Put It Under the Pillow, Rip Van Winkle

Outside of the [macro](#) case for yield-oriented securities to have a bout of relative performance in 2018, we have the supporting half century of fundamental data in the form of what WisdomTree affectionately refers to as “the Siegel chart.” After watching DHS underperform the [S&P 500](#) by double-digit percentage points in 2017, the Siegel chart in figure 2 may provide solace for those who take greater comfort in six decades of data than in the action of just a few recent years.

That data shows that a strategy that divided the S&P 500 into five groups of 100 based on each company’s [dividend yield](#), with an annual [rebalance](#), would have resulted in 230 [basis points \(bps\)](#) of annual outperformance for the highest-yielding group over 59 years. In retrospect, it would have been wise to enter a high-dividend strategy back in 1957 and take a multidecade Rip Van Winkle nap, waking to a very pleasant result today.

Figure 2: “The Siegel Chart”



Source: Jeremy Siegel, *The Future for Investors* (2005). Average annual total returns, 1957-2016. Each stock in the S&P 500 was ranked from highest to lowest by dividend yield on December 31 and separated into five groups of 100 stocks, weighted by the market capitalization. Dividend yield is each stock’s annual dividends per share divided by its stock price. Past performance is not indicative of future results. You cannot invest directly in an index.

Siegel + Consensus Bucking for 2018

What [Professor Jeremy Siegel](#) found, quite plainly and clearly—and what we have all heard, read and talked about for years—is that companies that send money back to shareholders are less likely to squander it on bad ideas and bad ventures.

Companies that pay dividends, and pay handsomely, are usually the ones that are serving their stockholders. With time, that consideration can pay off.

Because DHS screens for the 30% of companies in our dividend-paying universe that have the highest yields, these [moder n alpha](#) ETFs reincarnate the Siegel study for those who realize that sometimes investing boils down to the use of logic and reason.

Tie in this modern alpha concept with the nearer-term crowding of Wall Street consensus and the result looks like a nice recipe for 2018.

¹Source: Bloomberg. Data as of 1/15/2018.

Important Risks Related to this Article

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.

Dividends are not guaranteed, and a company currently paying dividends may cease paying dividends at any time. An investment's value may decline due to an increase in interest rates. When interest rates fall, income may decline.

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, Kara Marciscano, Jianing Wu, Brian Manby and Scott Welch 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.

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.

Rate Hike : refers to an increase in the policy rate set by a central bank. In the U.S., this generally refers to the Federal Funds Target Rate.

U.S. 10 Year Treasury Note : A debt obligation issued by the United States government that matures in 10 years.

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.

Macro : Focused on issues impacting the overall economic landscape as opposed to those only impacting individual companies.

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.

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

Rebalance : An index is created by applying a certain set of selection and weighting rules at a certain frequency. WisdomTree rebalances, or re-applies its rules based selection and weighting process on an annual basis.

Basis point : 1/100th of 1 percent.

Modern Alpha : Modern Alpha® combines the outperformance potential of active with the benefits of passive—to offer investor strategies that are built for performance.