

# WISDOMTREE'S ORIGINAL IDEA

Jeremy Schwartz — Global Chief Investment Officer

04/19/2022

WisdomTree launched 20 Funds in a day on June 16, 2006, with a simple idea: dividend weighting.

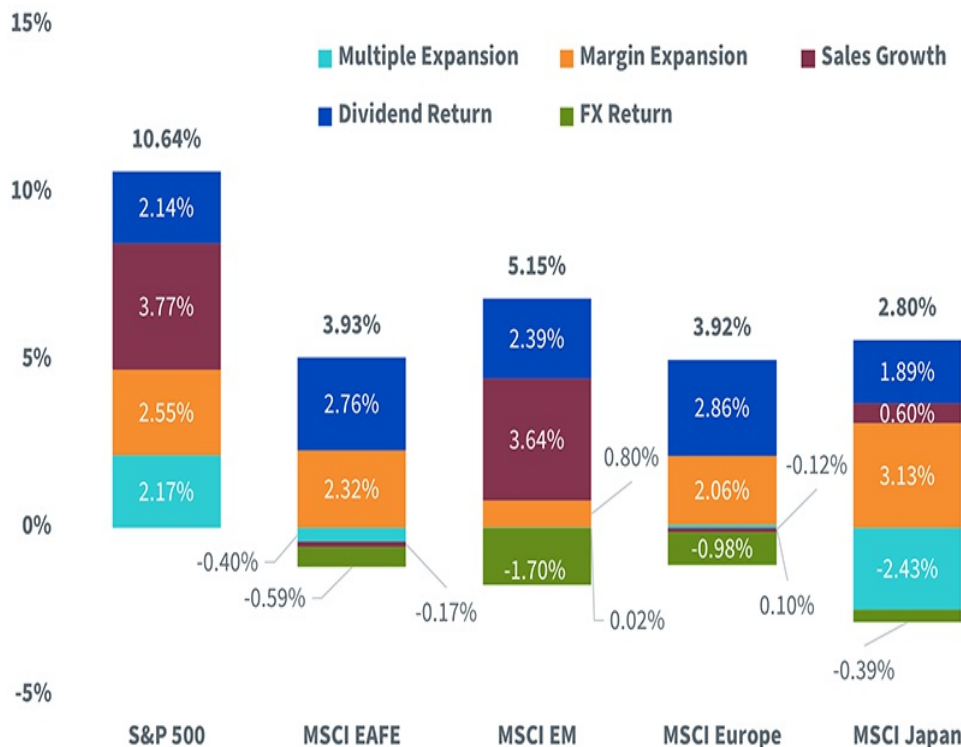
We believe that [cap-weighted](#) indexes contain an inherent bias to market mispricing that over-weights the most over-valued stocks with no mechanism to adjust weights toward valuations.

Our first family of stock Indexes anchored and rebalanced weights to the ultimate cash flows that companies return to shareholders: cash dividends.

Over the last 15-plus years, the [S&P 500](#) has delivered significant returns and the best of the major regions—more than 10.5% per year. But this will be hard to repeat.

- Sales growth increased at 3.8% per year—a rate similar to economic growth.
- Profit margins expanded from 8.9% to 13.1%, contributing 2.5% per year to the gains.
- Price-to-earnings ratios expanded from 16.2x to 22.4x, contributing a further 2% per year to the gains.
- Dividend yields averaged 2.2% over the period but are currently down to only 1.3% per year today because of price gains.

## Return Attribution: 6/30/06–3/31/22



Sources: WisdomTree, FactSet, MSCI, S&P. Returns are annualized and measured in USD. U.S. returns are gross total returns. International returns are net total returns. You cannot invest directly in an Index. Past performance is not indicative of future returns. Dividends are not guaranteed and may fluctuate.

Chris Bloomstran, CIO of Semper Augustus Investments Group and a well-known value investor and Warren Buffett analyst, used a similar framework for deconstructing returns and believes the S&P 500 is priced to deliver only a 5%

return looking ahead.<sup>1</sup>

Bloomstran cited a few headwinds for the S&P 500 that include:

- Less opportunity for rising market valuations.
- Profit margins expanded to all-time record levels. Higher labor costs, rising inflation and other input costs and new forces from the de-globalization of supply chains could cause profit margins to revert to lower levels.
- The S&P 500 dividend yield today is nearly 1% lower than it was looking back 15 years due to higher market multiples.

We are not quite as pessimistic in our outlook over the coming five to seven years, but counseling for more sober expectations is practical.

**Dividends Representative of Value Rotation**

Dividend-weighted stock indexes help improve valuations and dividend yields in particular.

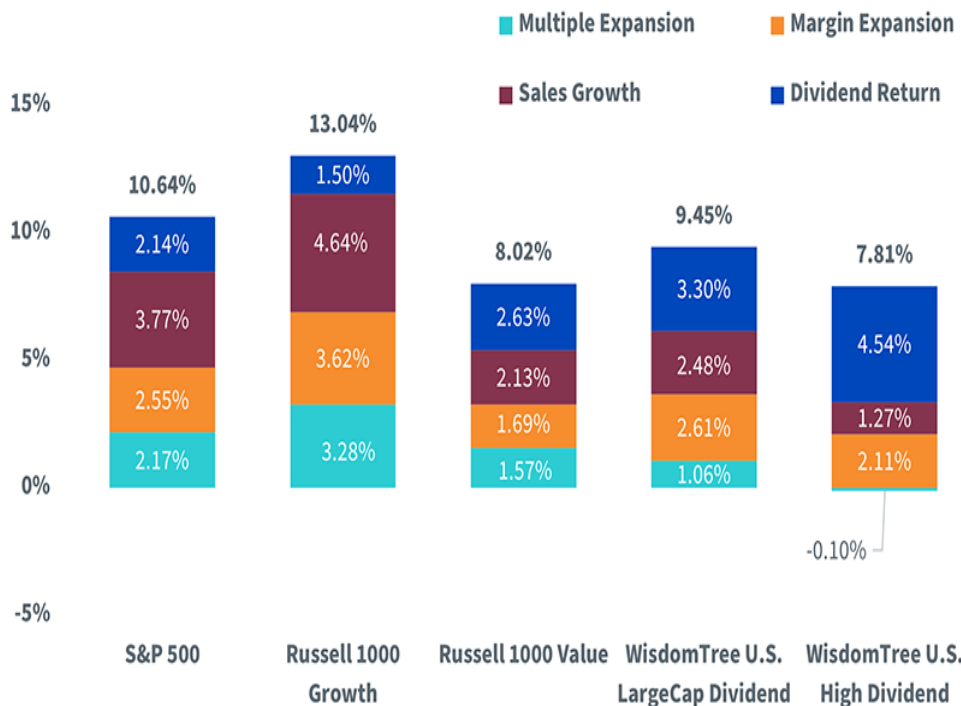
While growth dominated value over the last 16 years because of strong and above-average sales growth due to more profit margin expansion and even more multiple expansion, many of these features are unlikely to be repeated.

*Past performance is no guarantee of future returns*, as all the disclosures read, but this is very much relevant to growth index dominance, in our view.

WisdomTree’s dividend-weighted Indexes—the [WisdomTree U.S. LargeCap Dividend Index](#) and the [WisdomTree U.S. High Dividend Index](#)—had 3.3% and 4.5% annualized returns from dividends alone.

Neither Index relied heavily on multiple expansion for returns, with the large-cap dividend Index having a modest 1% return from multiple expansion and the more value-tilted high dividend Index having a slight multiple contraction over this period.

**Return Attribution: 6/30/06–3/31/22**



Sources: WisdomTree, FactSet, Russell, S&P. You cannot invest directly in an Index. Past performance is not indicative of future returns. Dividends are not guaranteed and may fluctuate. 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, brokerage commissions on transactions. Such fees, expense and commissions would reduce returns.

As large businesses, the “Fab Five” tech stocks are less likely to contribute as much to the market—and growth indexes specifically—looking ahead as they did over the last 16 years when their combined weight increased from less than 5% to as high as 24%.

**Combined S&P 500 Weight: Apple, Microsoft, Amazon, Alphabet, Meta Platforms**



Sources: WisdomTree, S&P, FactSet, 5/31/06–4/8/22. You cannot invest directly in an Index.

In a sign of the recent resurgence for value stocks, the [Russell 1000 Value Index](#) has outperformed the [Russell 1000 Growth Index](#) by more than 1,300 [basis points](#) to start 2022.

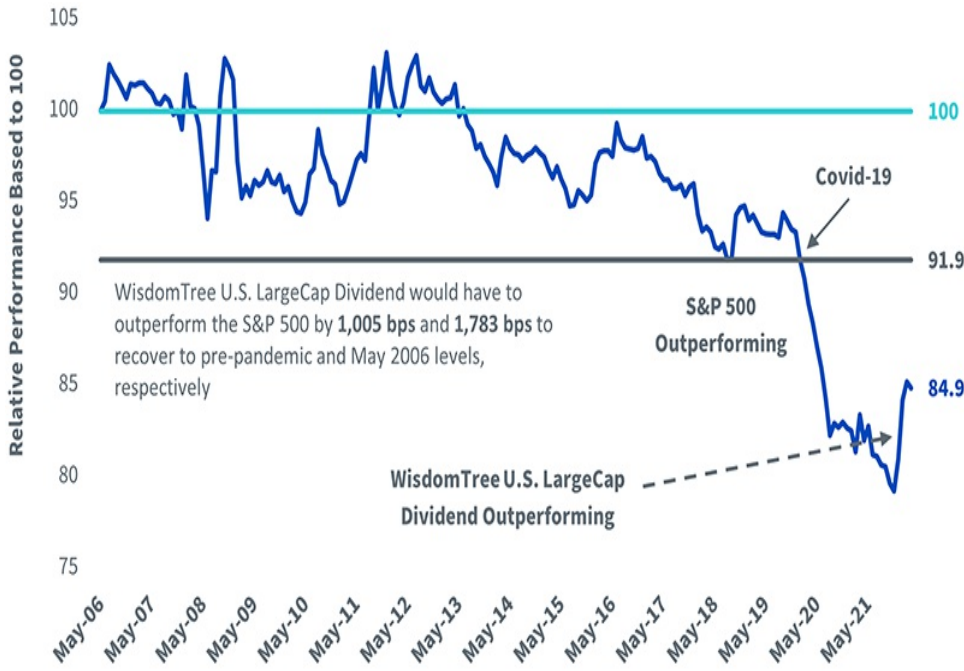
While the S&P 500 is down nearly 8%, the Russell 1000 Value Index is down just over 1.5%.

The WisdomTree U.S. LargeCap Dividend Index fared even better as it is virtually flat around a 0% return. We think this outperformance of high-quality, dividend-paying stocks represents just the early stages of a multi-year cycle.

The “stay-at-home” world accelerated the performance of tech stocks during the pandemic, but now a reopening economy with higher inflation and interest rates is flipping the regime.

With the deflating of the growth trade, the WisdomTree U.S. LargeCap Dividend Index has provided a cushion in a world of negative stock and bond returns.

**Relative Performance: WisdomTree U.S. LargeCap Dividend Index/S&P 500 Index**



Sources: WisdomTree, S&P, FactSet, 5/31/06-3/31/22. Pre-pandemic relative performance measured on 1/31/20. You cannot invest directly in an Index. Past performance is not indicative of future returns. Dividends are not guaranteed and may fluctuate.

While the environment over the last 15 years has been challenging for value mandates, let's close with this reminder of dividend yield quintile returns going back to the launch of the S&P 500 in 1957.

Over the long run, companies with higher dividend yields have handily outperformed those with the lowest yields and no dividends and have generally done so with lower risk than the market.

The last 16 years were outliers from this long-run data, and WisdomTree is excited to bring revitalized attention to our original idea that launched the firm in 2006: rebalancing indexes to a concept of relative value metrics—dividends—can be a powerful driver of returns in a world of expensive markets and higher volatility.

**Dividend Yield Quintiles (1957-2021)**



Source: Fama-French Data Library, 12/31/1957-12/31/2021.

<sup>1</sup> "We Study Billionaires – The Investor's Podcast Network – Tip 438: Berkshire Hathaway Masterclass w/ Chris

Bloomstran," 4/10/22.

**Important Risks Related to this Article**

Past performance is not indicative of future results. 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, brokerage commissions on transactions. Such fees, expense and commissions would reduce returns.

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.

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](http://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**

**Market capitalization-weighting** : Market cap = share prices x number of shares outstanding. Firms with the highest values receive the highest weights in approaches designed to weight firms by market cap.

**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.

**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.

**Basis point** : 1/100th of 1 percent.