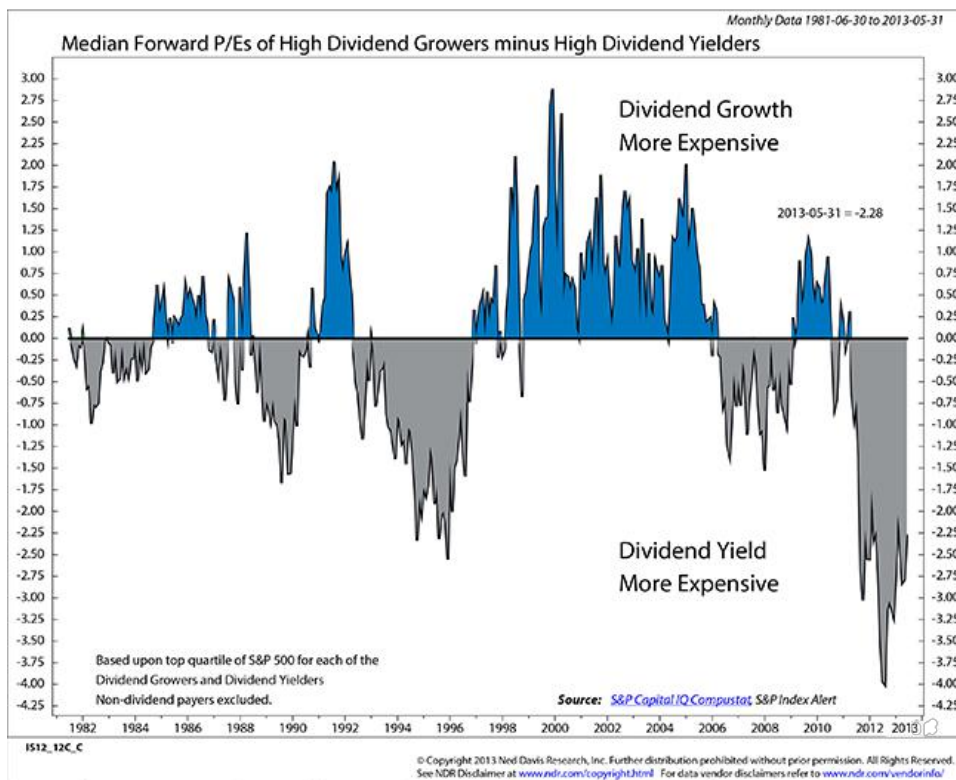


# DIVIDEND GROWERS CHEAPER THAN DIVIDEND YIELDERS?

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06/17/2013

We [have been writing](#) about our new Index of dividend-paying stocks with growth characteristics quite extensively since we launched the [WisdomTree U.S. Dividend Growth Index](#) in May. Given some of the market movements that occurred in May across the landscape of U.S. dividend-paying stocks, the launch of this strategy looks particularly timely. A number of analysts believe dividend-paying stocks with the highest dividend yields<sup>1</sup> are expensive compared to other parts of the equity market<sup>2</sup>. A rise in the long-term interest rates in the U.S. put some pressure on the performance of stocks with the highest dividend yields in May<sup>3</sup>. In a [piece](#) written May 28, 2013, we noted that the [price-to-earnings \(P/E\) ratios](#) of two dividend indexes—the [WisdomTree Equity Income Index](#), which focuses on the highest dividend yielding stocks in the U.S.<sup>4</sup>, and the WisdomTree U.S. Dividend Growth Index, which focuses on dividend stocks with growth characteristics<sup>5</sup> — were almost identical and under 15x. What is interesting about these similar P/E ratios is that the WisdomTree U.S. Dividend Growth Index had [long-term earnings growth expectations](#) that were about 5 percentage points higher than those of the WisdomTree Equity Income Index, as of May 31, 2013. Simply put, this means that, relative to their P/E ratios, one is not paying a premium P/E multiple to get access to the higher long-term earnings growth expectations of the U.S. Dividend Growth index.



Past performance is not indicative of future results. Source: Ned Davis Research, as of 5/31/2013. Universe: Starts with the S&P 500 Index. Each month, from within the S&P 500 Index, the top 25% of dividend growers (S&P 500 Growers) and the top 25% of dividend yielders (S&P 500 Yields) are selected from those stocks that pay dividends (non-payers are excluded). The median forward P/E ratio of each of these groups is taken, then the value for the dividend yielders is subtracted from that of the dividend growers. If the result is negative (shown in grey) the median forward P/E ratio of the dividend yielders is higher than that of the dividend growers. If the result is positive (shown in blue) the median forward P/E ratio of the dividend growers is higher than that of the dividend yielders.

For definitions of terms and indexes, visit our [Glossary](#). Ned Davis Research (NDR) recently published a note on a similar theme, where they conclude that the valuations of "S&P 500 Growers" is at one of the lowest points compared to "S&P 500 Yields" based on their analysis of median forward P/E ratios from June 30, 1981, to May 31, 2013. In the last 30 years, it was rare for the discount on S&P 500 Growers to be as low as it currently is compared to the S&P 500 Yields. **Conclusion** While the NDR research focuses on a different methodology, utilizing the S&P 500 Growers and S&P 500 Yields, we believe that the ultimate conclusion—that the market may currently be paying more for dividend yield than for dividend growth—is the same as what we indicated through the statistics referenced on our Equity Income and U.S. Dividend Growth Indexes. NDR concluded in this latest research note that "dividend portfolios should include more than the highest yielders. Look for companies that are growing their dividends and have the earnings and cash flow to support the growth."<sup>6</sup> I agree fully with this statement, as well as with the valuation picture that NDR paints with the last 30 years of historical valuation data in the chart. I believe this indicates a potential opportunity among U.S. dividend payers characterized more accurately by dividend growth than dividend yield. **Data source is Bloomberg unless otherwise noted.**<sup>1</sup> "Dividend-paying stocks with the highest dividend yields" refers to those stocks in the defensive sectors, specifically the [S&P 500 Telecommunication Services Index](#), the [S&P 500 Utilities Index](#) and the [S&P 500 Consumer Staples Index](#), as of 5/31/2013.<sup>2</sup> The market refers to the [S&P 500 Index](#). These three sectors indexes have higher price-to-earnings (P/E) ratios than the broader S&P 500 Index. P/E ratio refers to share price divided by earnings per share. Lower numbers indicate greater amounts of earnings per dollar invested.<sup>3</sup> Refers to the U.S. 10-Year Treasury Note's yield shifting from 1.67% as of 4/30/2013 to 2.13% as of 5/31/2013.<sup>4</sup> "Highest dividend-yielding stocks in the U.S." refers to the top 30% of stocks ranked by dividend yield from the [WisdomTree Dividend Index](#).<sup>5</sup> Refers to stocks from the universe of the WisdomTree Dividend Index with relatively higher long-term earnings growth expectations, return on assets and return on equity.<sup>6</sup> Ed Clissold, CFA, and Dan Sanborn, "Did Bernanke End the Dividend Trade?," Ned Davis Research Group, May 30, 2013.

Important Risks Related to this Article

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**WisdomTree U.S. Dividend Growth Index** : A fundamentally weighted index designed to track the performance of dividend-paying companies in the U.S. that WisdomTree believes have the potential to increase their dividends due to certain factors, which include estimated earnings growth, return on equity and return on assets. Weighting is by indicated cash dividends.

**WisdomTree Equity Income Index** : Measures the performance of the 30% highest-yielding dividend-paying equities within the WisdomTree Dividend Index, weighted by indicated cash dividends.

**Long-Term Earnings Growth Expectations** : Compilation of analyst estimates of the growth in operating earnings expected to occur over the next full business cycle, typically 3 to 5 years, sourced from Bloomberg.

**S&P 500 Telecommunication Services Index** : Market capitalization weighted measure of the performance of companies within the S&P 500 Index that are in the telecommunication services sector.

**S&P 500 Utilities Index** : Market capitalization weighted measure of the performance of companies within the S&P 500 Index that are in the Utilities sector.

**S&P 500 Consumer Staples Index** : Market capitalization weighted measure of the performance of companies within the S&P 500 Index that are in the consumer staples sector.

**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.

**WisdomTree Dividend Index** : Measures the performance of dividend-paying companies incorporated in the United States that pay regular cash dividends and meet WisdomTree's eligibility requirements. Weighted by indicated cash dividends.