

# RISK SCREENING RE-VISITED

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Investors have refocused on fundamentals this year.

That has translated to outperformance for profitable stocks and dividend payers over the hyped story stocks that flourished for most of the last two years.

In a recent blog post, we discussed the [composite risk screen \(CRS\)](#) used to enforce a focus on fundamentals and weed out value traps from WisdomTree's dividend Indexes.

Now let's walk through how that screening process looks with a [Russell 3000](#) universe and illustrate how these companies deemed "riskier" on our screens have performed amid recent volatility.

## Avoiding "Risky" Stocks

WisdomTree's U.S. dividend Indexes are rebalanced annually in December with data as of the end of November.

The WisdomTree CRS uses a model combining [dividend yield](#), [quality](#) and [momentum](#) as factors to mitigate exposure to companies more likely to cut (and/or less likely to grow) dividend payouts.

All U.S. companies are ranked (dividend payers or not) on our model, with the riskiest companies (bottom decile) excluded.

In addition to screening out the riskiest decile of companies based on the CRS, the highest-yielding companies (the top 5%) that also have below-average (bottom five deciles) risk scores are excluded.

The below table shows the top 20 Russell 3000 weights that would have been removed. The companies highlighted in yellow are the dividend payers excluded from [WisdomTree U.S. Dividend Index](#).

In total, 4% of the weight of the Russell 3000 would have been categorized as "risky."

## Top 20 Companies Removed on Composite Risk Screen

Name	Ticker	Weight	Market Cap (\$ Bn)	Dividend Yield
AT&T Inc.	T	0.35%	\$163	9.11%
Boeing Company	BA	0.23%	\$116	-
International Business Machines Corporation	IBM	0.23%	\$105	5.60%
Snowflake, Inc. Class A	SNOW	0.14%	\$102	-
Fidelity National Information Services, Inc.	FIS	0.14%	\$64	1.49%
Uber Technologies, Inc.	UBER	0.13%	\$74	-
Illumina, Inc.	ILMN	0.12%	\$57	-
Twilio, Inc. Class A	TWLO	0.10%	\$51	-
Biogen Inc.	BIIB	0.08%	\$35	-
Global Payments Inc.	GPN	0.08%	\$35	0.84%
Palantir Technologies Inc. Class A	PLTR	0.07%	\$40	-
Williams Companies, Inc.	WMB	0.07%	\$33	6.12%
CoStar Group, Inc.	CSGP	0.07%	\$31	-
Phillips 66	PSX	0.07%	\$30	5.32%
Valero Energy Corporation	VLO	0.06%	\$27	5.86%
Okta, Inc. Class A	OKTA	0.06%	\$33	-
Southwest Airlines Co.	LUV	0.06%	\$26	-
DoorDash, Inc. Class A	DASH	0.06%	\$60	-
Unity Software, Inc.	U	0.06%	\$49	-
Vulcan Materials Company	VMC	0.05%	\$25	0.77%

Sources: WisdomTree, FactSet, Russell, as of 11/30/21. Universe is the Russell 3000 Index. You cannot invest directly in an index.

The below table summarizes the step-by-step screening process to arrive at a basket of high-quality dividend-paying companies.

First, 288 securities (or 10% of the Russell 3000) are screened out based on the CRS (both dividend payers and non-dividend payers).

Second, 1,468 companies are removed as non-dividend payers (or nearly half of the Russell 3000).

The final portfolio holds 1,261 securities, or 42% of companies in the Russell 3000. '

#### Russell 3000 Index: Risk Screening

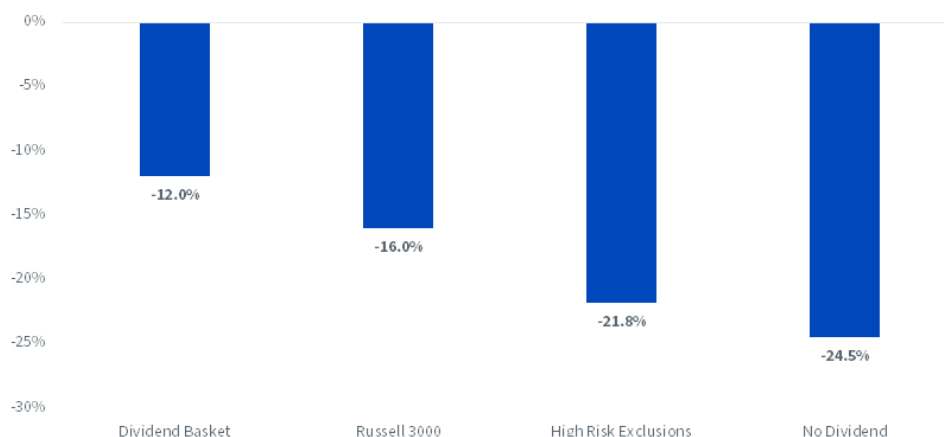
		Number of Securities	Percent (by count) of Russell 3000
Screens	Starting Universe	3,017	100%
	High Risk Exclusions	288	10%
	No Dividends	1,468	49%
	Final Basket	1,261	42%

Sources: WisdomTree, Russell, as of 11/30/21. High Risk Exclusions are companies excluded on composite risk score (CRS). You cannot invest directly in an index.

Amid heightened volatility in 2022, the 288 high-risk exclusions have lagged the performance of the Russell 3000 by over 500 [basis points](#).

The no dividend basket (not including companies excluded by CRS) are down even more severely at -24%.

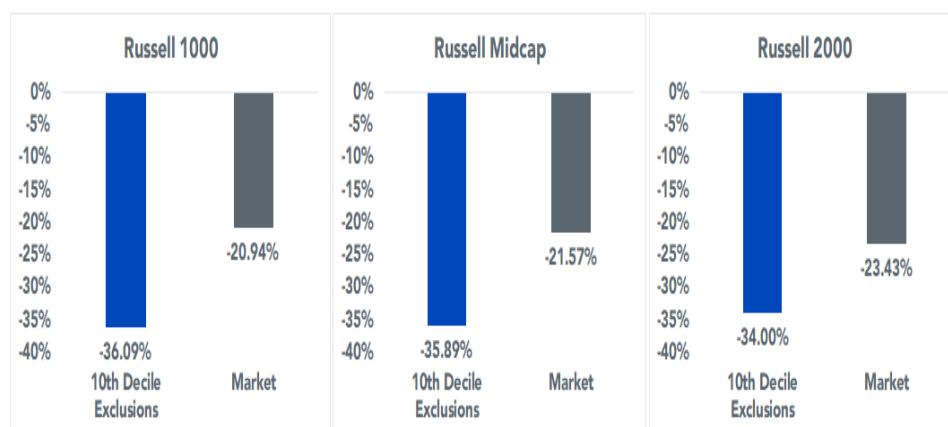
#### Year-to-Date Performance



Sources: WisdomTree, Russell, FactSet, as of 7/21/22. You cannot invest directly in an index. Past performance is not indicative of future returns. Basket constituents and weights rebalanced as of 11/30/21. Dividend Basket: Russell 3000 constituents excluding companies screened out by WisdomTree's composite risk screen and active dividend payers. Russell 3000: Russell 3000 constituents. Basket performance does not exactly align with Russell 3000 Index returns. CRS: Russell 3000 constituents screened out by WisdomTree's composite risk screen. No Dividend: Russell 3000 constituents that do not pay a dividend.

Looked at another way, across [large](#)-, [mid](#)-, and [small-cap](#) indexes, we see that the tenth decile on CRS—the riskiest stocks screened out of our dividend indexes—have heavily lagged across size cuts.

### Year-to-Date Tenth Decile Stocks Lag across Markets



Sources: WisdomTree, FactSet, Russell, as of 6/30/22. Tenth Decile classification defined as of 11/30/21. You cannot invest directly in an index. Past performance is not indicative of future returns.

Bottom Line: Dividend

### Indexes Leading in 2022

Now let's turn from the hypothetical of the widely followed Russell 3000 universe to the performance of WisdomTree's dividend Indexes this year.

Dividends have worked in a big way in 2022 reflected in outperformance across WisdomTree's dividend Indexes relative to both the value and broad-market Russell benchmarks.

This year remains one of the most challenging macroeconomic environments investors have faced in some time. It is encouraging that [WisdomTree's original and pioneering dividend methodology has provided downside mitigation](#)—and we further believe that our risk screening enhancements to exclude the highest composite risk securities are likely to pay even more dividends during any future recessions and steep bear markets.

### Index Performance, as of 6/30/22

Name	YTD
WisdomTree U.S. Dividend	-9.50%
Russell 3000 Value	-13.15%
Russell 3000	-21.10%
WisdomTree U.S. LargeCap Dividend	-9.38%
Russell 1000 Value	-12.86%
Russell 1000	-20.94%
WisdomTree U.S. MidCap Dividend	-11.08%
Russell Midcap Value	-16.23%
Russell Midcap	-21.57%
WisdomTree U.S. SmallCap Dividend	-13.15%
Russell 2000 Value	-17.31%
Russell 2000	-23.43%
WisdomTree U.S. High Dividend	1.26%
Russell 1000 Value	-12.86%

Sources: WisdomTree, Russell. You cannot invest directly in an index. Past performance is not indicative of future returns.

For definitions of indexes in the chart, please visit our [glossary](#).

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](#).

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You cannot invest directly in an index.

## DEFINITIONS

**Russell 3000 Index** : Measures the performance of the 3,000 largest U.S. companies based on total market capitalization.

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

**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 time.

**Momentum** : Characterized by assets with recent price increase trends over time. This term is also associated with the Momentum Factor which associates these stock characteristics with excess return vs the market over time.

**Large-Capitalization (Large-Cap)** : A term used by the investment community to refer to companies with a market capitalization value of more than \$10 billion. Large cap is an abbreviation of the term "large market capitalization". Market capitalization is calculated by multiplying the number of a company's shares outstanding by its stock price per share.

**Mid-Cap** : Characterized by exposure to the next 20% of market capitalization (after the top 70% have been removed) within the Value, Blend or Growth style zones with the majority of the fund's weight.

**Small caps** : new or relatively young companies that typically have a market capitalization between \$200 million to \$2 billion.