RECENT TRENDS IN U.S. DIVIDENDS AND BUYBACKS

Jeremy Schwartz — Global Chief Investment Officer
05/18/2016

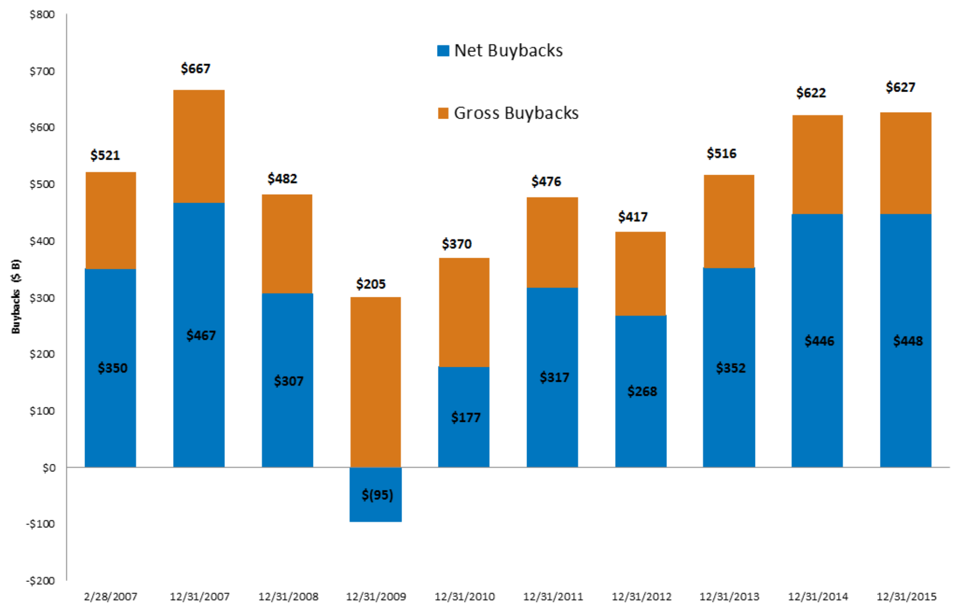
U.S. companies historically have paid out a large majority of their earnings as dividends. From 1871 to 2015, the average dividend yield was approximately 4.4%, and the average dividend payout ratio was more than 60%. This is strikingly different from the average dividend yield of 2.07% and payout ratio of 37% over the more recent 10-year period.[1]

S&P 500 Index	Real Dividend Growth	Nominal Dividend Growth	Average Dividend Yield	Average Dividend Payout Ratio
1871-2015	1.51%	3.61%	4.39%	60.15%
1871-1945	0.74%	1.25%	5.31%	70.81%
1946-2015	2.34%	6.15%	3.40%	48.60%
2005-2015	4.97%	6.92%	2.07%	37.37%

Sources: WisdomTree, Robert Shiller, 1/31/1871–12/31/2015. Past performance is not indicative of future results. You cannot invest directly in an index. Real dividend growth refers to the rate of dividend growth after inflation. Nominal dividend growth refers to the rate of dividend growth before inflation.

Dividend and Earnings Growth

Looking at just the current dividend yield of 2.07% could imply that the market is "expensive" because it is below the average 4.4% dividend yield of the markets since 1871. This might be the case if firms were not altering the way they return money to shareholders (i.e., through increased share buybacks). Looking at the combined dividend yield and net buyback yield, or shareholder yield, might tell a different story about valuations. Whether these lower dividend payout ratios (higher retained earnings or higher buybacks) are wasted or in fact lead to higher earnings and dividend growth is key to the debate about future returns on the market. **The evidence shows that over long periods, a decreased dividend payout ratio has led to increased earnings and dividend growth.** Prior to 1946, the average payout ratio was more than 70% and dividend yields averaged 5.3%, but real (after-inflation) dividend growth was only 0.74%.[2] After 1946, when the payout ratio decreased from more than 70% to less than 50%—leading to a reduction in the average dividend yield to 3.4%—real dividend growth increased to 2.3%, a pickup of 1.6%.[3] Over the last 15 years, firms increasingly have been using share buybacks as a method of returning cash to shareholders. • As of December 31, 1999, dividends and gross share buybacks were roughly equal, at around $140 billion each. • But as of December 31, 2015, firms distributed to shareholders $572 billion of gross share buybacks and $382 billion of dividends over the previous 12 months.[4] But not all buybacks should be counted the same. Some companies buy back stock only to offset the dilution of shares that results from share issuance. What has an impact on future earnings and dividend growth are the buybacks that reduce total shares outstanding, as these buybacks impact per-share earnings and dividend distributions in the future, assuming a constant level of aggregate dividends being distributed or earnings generated. WisdomTree has an earnings-weighted Index of the U.S. markets, called the WisdomTree Earnings Index, that covers more than 2,000 stocks and provides a good cross-section of the capital allocation plans of companies in the U.S. WisdomTree has been tracking the performance and fundamentals of these profitable companies since early 2007, the Index's inception. **WisdomTree**



Sources: WisdomTree, FactSet, 2/28/07–12/31/15. Start date was chosen because it is first month-end after inception date of the WisdomTree Earnings Index (2/1/07).

Earnings Index Buybacks

The unmistakable conclusion from the last few years of stock buyback data is that buybacks are having an impact on reducing shares outstanding. Impressively, since the calendar-year bottom in 2009, buybacks have tripled from $205 billion to $627 billion, and net buybacks have increased by more than $540 billion. Since February 2007, total gross buybacks have grown from $521 billion to $627 billion, and net buybacks have grown from $350 billion to $448 billion. As of December 31, 2015, only 14% of the WisdomTree Earnings Index's weight was in companies that increased shares outstanding over the previous 12 months; the other 86% either reduced shares outstanding or kept them constant. Over the last five years, on average, around 74% of the Index weight was in companies that had a positive net buyback yield (or reduced shares outstanding). Even more impressive, over the same period, around 47% of the Index weight was in companies that reduced shares outstanding by 2% or more. We believe investors should look at the increased share buyback of corporate America as a positive for future returns. Assuming no change in revenue or profitability (i.e., a consistent *Earnings Stream®*), these net share buybacks are essentially "locking in" a certain level of earnings-per-share growth by reducing shares outstanding. Taken a step further, assuming no change in valuation (i.e., a constant price-to-earnings ratio [P/E]), the price of a security would have to increase by the same percentage as its earnings-per-share growth to keep the P/E ratio constant.

[1]Sources: WisdomTree, Robert Shiller. Refers to the S&P 500 Index from 1926 to present and a similar U.S. market equivalent prior to 1926. [2]Sources: WisdomTree, Robert Shiller. [3]Note: Since there was a structural shift down in dividend payout ratio, it is not surprising the real dividend growth is greater than the reduction in dividend yield. [4]Source: Standard & Poor's, as of 12/31/15.

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 and Brian Manby 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.

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

Dividend Payout Ratio : The percentage of earnings paid to shareholders in dividends. Calculated as yearly dividends per share over earnings per share.

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

Net Buyback Yield : A company's net share buyback is the difference between the capital raised by issuing new shares and the money the company spent on buying back any outstanding shares. A positive net share buyback means that more was spent on buying back existing shares than received from issuing new shares. Net buyback yield is the amount of a company's net buybacks divided by its market capitalization. Please note that net buyback yield does not represent a dividend paid by the company.

Shareholder Yield : A data point that references the combination of dividend yield and buyback yield.

Valuation : Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.

Fundamentals : Attributes related to a company's actual operations and production as opposed to changes in share price.

Earnings Stream® : Earnings per share x the number of shares outstanding. For an index, these totals are added for all constituents.

Earnings per share : Total earnings divided by the number of shares outstanding. Measured as a percentage change as of the annual Index screening date compared to the prior 12 months. Higher values indicate greater growth orientation.

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.