

Capturing the trend in equity markets early: Have tech stocks become part of your dividend strategy

Published 15 April 2015

Dividend exchange-traded funds (ETFs) are becoming increasingly popular—and increasingly plentiful. And while you already knew that all dividend growth funds are not the same, it may surprise you to discover just how different they really are. We believe it is critical to understand the differences between the indexes they track and the methodologies they use in order to review and compare them on an “apples to apples” basis.

For example, did you know that many of the most popular dividend growth ETFs use backward-looking screens that require 10–20 consecutive years of dividend growth before a company is eligible for inclusion? While this may sound like a good idea, it can exclude both new dividend payers and companies with the fastest growing dividends out of your portfolio for a decade or more.

This simply doesn't make sense to us. Take Apple, for example. Apple is now the second-largest dividend payer in the United States. And with the record earnings the company has recently reported, it could easily move up to first place soon. But if your ETF uses backward-looking screens, as most do, you likely won't see Apple in your portfolio until 2023 (at the earliest).

So, how do you know if your ETF uses backward-looking screens?

- Look for the benchmark index
- Review the index methodology
- See if they require a set number of years of increasing dividends

But WisdomTree Europe's UCITs ETFs, such as the [WisdomTree U.S. Equity Income](#) ETF (DHS), are based on Indexes with a methodology that not only best captures the trend of the dividend paying equity market universe, but importantly allow investors to capture the trend early on. One of these trends unfolding before us is the growth in the number of stocks within the technology sector that is paying out dividends (see chart 1). For instance, we estimate that - within Europe's equity technology sector, which comprises stocks with a market cap of at least USD 200M - 42 of the 72 stocks paid cash dividends in 2000. Today, the number of technology stocks in Europe has risen to 179, 105 of which paid a cash dividend in 2014. The rise of dividend paying technology stocks is also evident in the US, when in 2000 only 12%, or 30 stocks paid a cash dividend, while last year, that percentage has risen to 26% (or 130 stocks).

The WisdomTree screening methodology requires a 12 month cash dividend history for stocks to be eligible for index inclusion, this is an effective approach to enable investors to capture the trend in the equity markets early on. Amongst the dividend strategies on offer, the basket of stocks is large (including several

hundred companies) and well-diversified, resulting in dividend yield premium and improved risk-adjusted returns which can be achieved over market-cap based ETF strategies.

- Investors sharing this sentiment may consider the following UCITS ETFs:
 - [WisdomTree US Equity Income UCITS ETF \(DHS\)](#)
 - [WisdomTree Europe Equity Income UCITS ETF \(EEI\)](#)
 - [WisdomTree Emerging Markets Equity Income UCITS ETF \(DEM\)](#)
 - [WisdomTree US Small-cap Dividend UCITS ETF \(DESE\)](#)
 - [WisdomTree Europe Small-cap Dividend UCITS ETF \(DFE\)](#)
 - [WisdomTree Emerging Markets Small-cap Dividend UCITS ETF \(DGSE\)](#)
- [WisdomTree US Equity Income UCITS ETF \(DHS\)](#)
- [WisdomTree Europe Equity Income UCITS ETF \(EEI\)](#)
- [WisdomTree Emerging Markets Equity Income UCITS ETF \(DEM\)](#)
- [WisdomTree US Small-cap Dividend UCITS ETF \(DESE\)](#)
- [WisdomTree Europe Small-cap Dividend UCITS ETF \(DFE\)](#)
- [WisdomTree Emerging Markets Small-cap Dividend UCITS ETF \(DGSE\)](#)

All data is sourced from WisdomTree Europe and Bloomberg, unless otherwise stated.

Important Risks Related to this Article

Important Information

Marketing communications issued in the European Economic Area (“EEA”): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA: This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as “WisdomTree” (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

For professional clients only. The information contained in this document is for your general information only and is neither an offer for sale nor a solicitation of an offer to buy securities or shares. This document should not be used as the basis for any investment decision. Investments may go up or down in value and you may lose some or all of the amount invested. Past performance is not necessarily a guide to future performance. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

The application of regulations and tax laws can often lead to a number of different interpretations. Any views or opinions expressed in this communication represent the views of WisdomTree and should not be construed as regulatory, tax or legal advice. WisdomTree makes no warranty or representation as to the accuracy of any of the views or opinions expressed in this communication. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

This document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares or securities in the United States or any province or territory thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.

Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.