

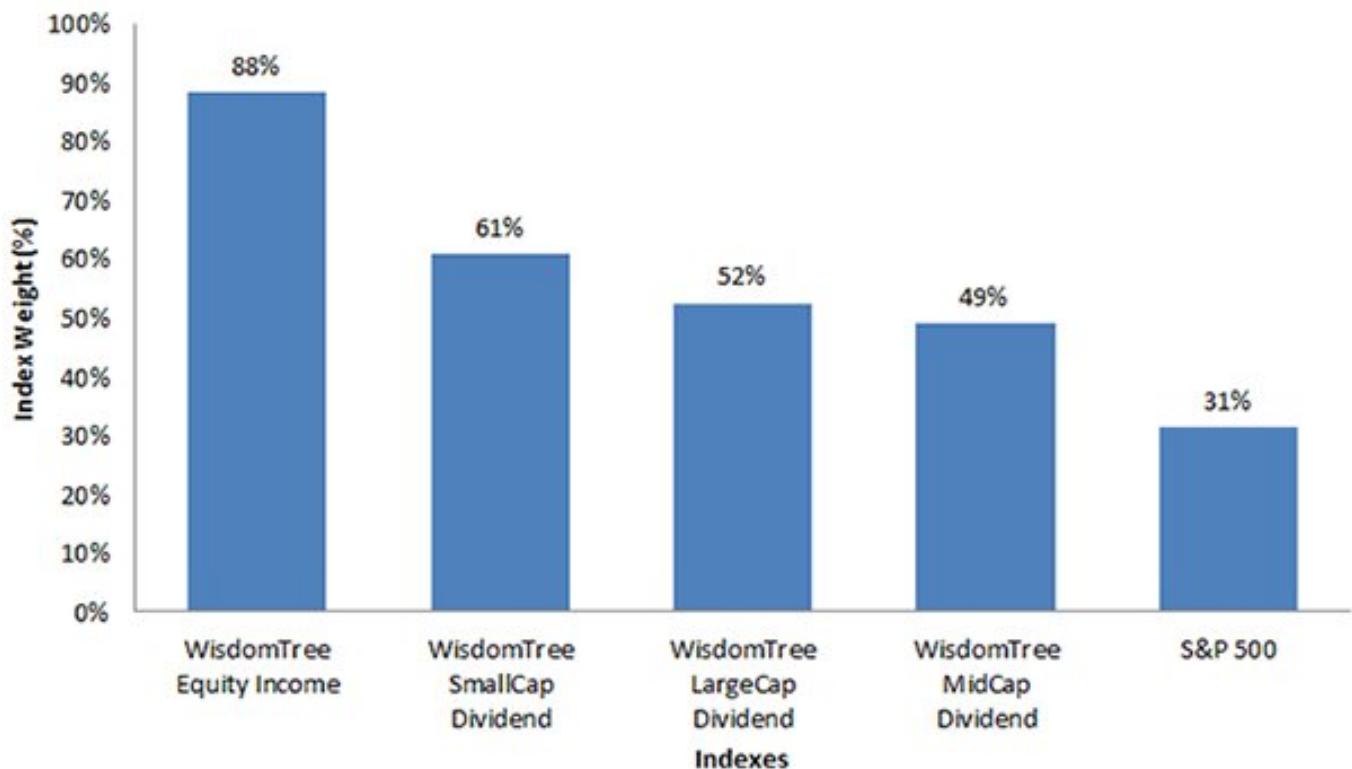
Dividend Paying Equities Gain an Advantage

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During the second half of last year, longer-term interest rates in the U.S. rose considerably—mostly driven by the expectation that the Federal Reserve (Fed) would begin tapering its quantitative easing (QE) program. As a result, the yield advantage dividend-paying equities had offered over the past few years started to close, which caused a rotation out of the higher-yielding sectors of the dividend market. Surprisingly, even though the Fed has continued to scale back purchases of both mortgage-backed securities and U.S. Treasury bonds, interest rates have actually fallen year-to-date.¹ More recently, the yield advantage dividend-paying equities offer has improved and the percentage of equities with a higher dividend yield than the 10-Year U.S. Treasury has increased. As a result, we have started to see a rotation back into dividend-paying equities. **The Impact of Fundamental Weighting** There is still a healthy part of the broader market that can offer higher yields than U.S. Treasuries, but since this part no longer represents the majority of stocks in the market, it would be hard to notice by looking only at large-cap indexes weighted by market capitalization. At WisdomTree we weight eligible companies in our Indexes by their *Dividend Stream*®, which enables us to magnify the effect of dividends. The figure below shows the weight of each index in stocks with higher dividend yields than the 10-Year Treasury. **Percentage of an Index with a Dividend Yield Above the 10-Year Treasury Yield**



Sources: WisdomTree, Bloomberg, as of 4/11/14. The 10-Year Treasury yield was 2.62%. Subject to change.

For definitions of indexes in the chart, please visit our [Glossary](#). • **Rates Have Fallen Year-to-Date** – Through April 11, 2014, the 10-Year Treasury yield has decreased from 3.03% to 2.62%—a change of 41 basis points. To put this in context, rates still remain well below their monthly average of around 6.0% over the last 30 years. But as interest rates decrease, they provide less competition for dividend-paying equities, especially higher-yielding equities. • **Higher-Yielding Equities Offer an Advantage** – The WisdomTree Equity Income Index, which selects securities for inclusion based on dividend yield, has close to 90% of its weight in securities with a yield advantage over Treasuries. These higher-yielding securities, which underperformed last year as rates rose, have started to show relative strength against the broad market as rates have pulled back year-to-date. • **Small Caps for Income** – When investors think of dividends, they tend to think of mature large-cap companies as their primary source. As a result, we feel that many investors mistakenly overlook small-cap equities as attractive income options. I find it impressive that the WisdomTree SmallCap Dividend Index (WTSDI) has almost twice the weight of the [S&P 500](#) in stocks with a dividend yield higher than the 10-Year Treasury—over 60%. • **The Dividend Advantage** Bonds, of course, offer just a fixed income stream, but dividend-paying equities can offer the potential for income growth through dividend increases. We continue to see broad-based dividend growth among the constituents of the WisdomTree Dividend Index discussed in detail [here](#). Further, S&P Dow Jones Indices recently announced that a record number of U.S. companies reported dividend increases during the first quarter of 2014. Howard Silverblatt, senior index analyst for the company, stated, “Increases outnumbered decreases more than 10-to-1, as \$17.8 billion in net increases were declared by U.S. domestic issues. Payments for the first quarter are estimated to have increased 15% over the first quarter of last year. Payout rates, which historically average 52%, continue to remain near their low at 36%.”² • **Conclusion** As equity

markets and interest rates forged higher last year, investors repositioned out of defensive higher-yielding equities and into higher beta stocks to try to capture the upside return potential. With interest rates falling year-to-date and the broad equity markets mostly sideways, investors have become more constructive on the importance of dividend income. At WisdomTree, we have always considered dividends an important component of total return, and feel diversified portfolios can typically benefit from dividend-paying equities across many different market environments. For individuals who are bullish on the equity markets, we would highlight our preference for equities with higher dividend growth characteristics over equities with higher yields, and also look past large caps into the small- and mid-capitalization dividend-paying markets. For those more cautious on the equity market, we would focus their attention on higher-yielding defensive equities. 112/31/13–4/11/14. 2“First Quarter 2014 Sees Record Number of Dividend Increases,” S&P Dow Jones Indices, 4/9/14.

Important Risks Related to this Article

Dividends are not guaranteed, and a company's future ability to pay dividends may be limited. A company currently paying dividends may cease paying dividends at any time.