

Dividend Weighted Indexes Crush the Market in Q1

Published April 8, 2016

Luciano Siracusano III

Chief Investment Strategist

Dividend stocks beat the market in Q1—and they did so convincingly across every major size segment in the U.S. The table below quantifies those excess returns, using WisdomTree's dividend-weighted size cuts as barometers for the performance of dividend-paying stocks across the capitalization spectrum. **Index Performance**

Index	WisdomTree Index Inception Date	Average Annual Total Returns as of 3/31/2016				
		YTD	1-Year	3-Years	5-Years	Since WisdomTree Index Inception
WisdomTree Dividend Index	6/1/2006	4.34%	3.15%	10.91%	12.15%	7.36%
Russell 3000 Value Index		1.64%	-2.05%	9.08%	9.95%	5.74%
Russell 3000 Index		0.97%	-0.34%	11.15%	11.01%	7.26%
WisdomTree LargeCap Dividend Index	6/1/2006	3.93%	3.36%	10.74%	12.06%	7.06%
Russell 1000 Value Index		1.64%	-1.54%	9.38%	10.25%	5.82%
S&P 500 Index		1.35%	1.78%	11.82%	11.58%	7.30%
WisdomTree MidCap Dividend Index	6/1/2006	7.40%	3.38%	12.97%	13.22%	8.78%
Russell Midcap Value Index		3.92%	-3.39%	9.88%	10.52%	7.48%
S&P MidCap 400 Index		3.79%	-3.60%	9.46%	9.52%	8.27%
WisdomTree SmallCap Dividend Index	6/1/2006	6.30%	-1.59%	9.35%	10.70%	6.89%
Russell 2000 Value Index		1.70%	-7.72%	5.73%	6.67%	4.92%
Russell 2000 Index		-1.52%	-9.76%	6.84%	7.20%	5.97%
WisdomTree High Dividend Index	6/1/2006	8.06%	8.38%	11.27%	13.61%	6.64%
Russell 1000 Value Index		1.64%	-1.54%	9.38%	10.25%	5.82%

Source: Bloomberg as of 4/5/2016. Past performance is not indicative of future results. You cannot invest directly in an index. Index performance does not represent actual fund or portfolio performance. A fund or portfolio may differ significantly from the securities included in the index. Index performance assumes reinvestment of dividends but does not reflect any management fees, transaction costs or other expenses that would be incurred by a portfolio or fund, or brokerage commissions on transactions in fund shares. Such fees, expenses and commissions could reduce returns.

For definitions of indexes in the chart, visit our [glossary](#). The excess returns were significant. The [WisdomTree Dividend Index](#), which measures the performance of more than 1,400 U.S. dividend-paying stocks, beat the Russell 3000 Index by 337 basis points (bps) in Q1. The [WisdomTree MidCap Dividend Index](#) beat the [S&P MidCap 400](#) by 362 bps. And the [WisdomTree SmallCap Dividend Index](#) returned 6.3%, during a quarter when the Russell 2000 Index declined by 1.5%. I think there are three basic reasons why dividend stocks performed so well in the first quarter of 2016. First, value stocks reversed a multi-year trend and trumped growth stocks in Q1. Value stocks across the board, as measured by the value indexes

highlighted above, outperformed the beta benchmark in their respective size categories. When value stocks beat growth stocks, a tailwind can be created for dividend-weighted indexes, as they tend to tilt toward relative value. Second, with the rise in the CBOE Volatility Index (VIX) intra-quarter, I believe investors were rotating toward the more defensive portion of the market. WisdomTree's larger-cap Indexes are typically over-weight the more defensive sectors of the market and thus benefitted from the outperformance of the market's three best-performing sectors in Q1: Utilities, Telecom and Consumer Staples. Also of note: Health Care ended up being the poorest-performing sector of the [S&P 500 Index](#) in the first quarter. All five of the WisdomTree Indexes mentioned above were under-weight health care compared to their market cap-weighted peers. Third, I believe, the market's recalibration of how fast the Federal Reserve (Fed) will increase interest rates in 2016 benefitted the higher-yielding portion of the U.S equity market. The fact that foreign central banks have sent interest rates into negative territory helps keep a lid on how high the yield on the 10-year Treasury can go. This is good for utilities, telecoms and real estate investment trusts (REITs) that have competitive yields relative to 10-Year Treasuries and investment-grade corporate debt. The best performance of the five WisdomTree dividend-weighted Indexes highlighted above was generated by the [WisdomTree High Dividend Index](#). This Index, which selects stocks with high dividend yields and then weights them based on the cash dividends they pay, returned 8.0% for the quarter, compared to 1.64% for the Russell 1000 Value Index. As of April 1, this WisdomTree Index exhibited a trailing dividend yield of 4.1%, the highest dividend yield of any of [WisdomTree's U.S. equity Indexes](#). **Conclusion** WisdomTree's dividend-weighted Indexes had an excellent first quarter, beating comparable cap-weighted indexes. In many instances, WisdomTree's dividend-weighted approach has been able to generate higher total returns over the last three-, five- and nearly ten-year periods, despite value underperforming growth in the U.S. over those periods. For investors looking to combine higher dividend yields with the potential for more defensive U.S. equity exposure, WisdomTree's dividend-weighted size cut strategies could provide clear alternatives to strategies that track traditional cap-weighted indexes in all of the major size segments of the U.S. market.

Important Risks Related to this Article

Dividends are not guaranteed and a company currently paying dividends may cease paying dividends at any time.