

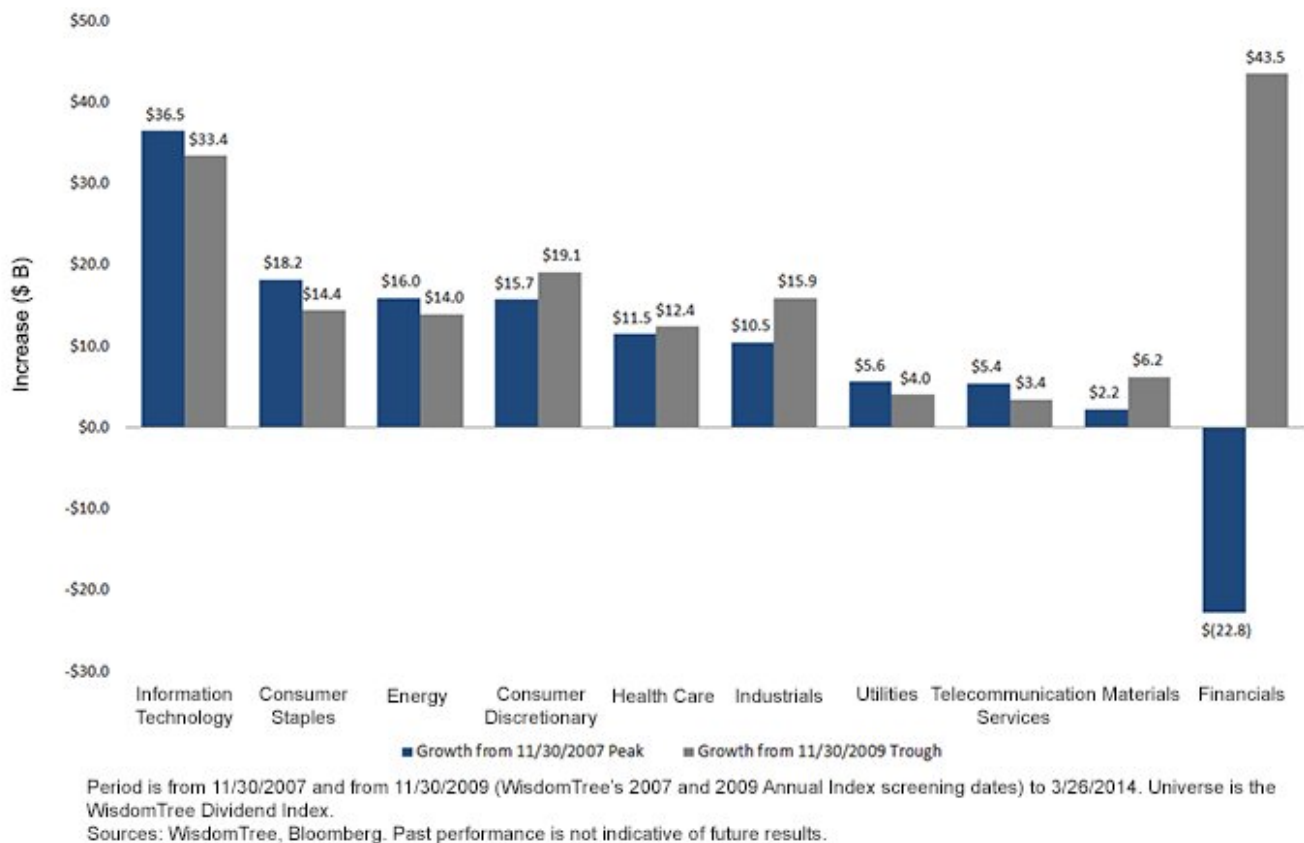
Fast and Furious Dividend Growth to Start 2014

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Tripp Zimmerman, CFA

Director, Research

In today's environment, investors are interested in positioning their portfolios for the inevitable normalization of interest rates as the Federal Reserve winds down its quantitative easing program. One particular area of focus have been equities that exhibit dividend growth—made attractive not only because of the *current* income but also because of the potential for future *growth* of that income. And we are seeing significant increases in dividends from some of the largest dividend payers thus far in 2014. **The top five increases in cash *Dividend Streams*® in 2014 have been:** • Bank of America increased its dividend fivefold, the first increase since 2009, for an approximate dollar increase of \$1.7 billion. • Wells Fargo announced an increase of 16.7%—this means approximately \$1.1 billion more will be returned to shareholders. • J.P. Morgan increased its dividend per share by 5.3%, resulting in an incremental increase of \$600 million being returned to shareholders. • PepsiCo increased its dividend by over 15%, meaning that an additional \$530 million will be paid out as dividends. • Rounding out the top five, Cisco Systems increased its dividend per share by almost 12%, meaning that an additional \$410 million will be returned to shareholders. While Financials have stolen the show in 2014 with some blockbuster dividend announcements following the recent stress test announcements, companies in all 10 market sectors are increasing their dividends. Below we examine the composition of U.S. dividend growth, focusing specifically on its behavior from November 30, 2007 (its prior peak), and from November 30, 2009 (its most recent trough). **How Big Is the U.S. *Dividend Stream*?** On November 30, 2007, WisdomTree saw a peak value in its U.S. *Dividend Stream*—approximately \$288 billion, a number not surpassed until November 30, 2012, when a value of approximately \$329 billion was reached. Conversely, on November 30, 2009, WisdomTree saw the lowest value in its U.S. *Dividend Stream* since inception—approximately \$221 billion. As of March 26, 2014, the firms in the WisdomTree Dividend Index have already grown their dividends an additional \$20 billion since WisdomTree's latest domestic screening date (11/30/2013). This means the current indicated *Dividend Stream* is nearly \$387 billion. Below we dissect the key drivers of the increased dividend payouts over this latest cycle. ***Dividend Stream Growth***



• **Information Technology:** This sector accounts for almost 37% of the increase in dividends from November 30, 2007, to March 26, 2014, with \$36.5 billion of the \$98.7 billion total increase in dividends. Technology firms are generally recent initiators, with lots of cash on their balance sheets and potential for further dividend growth. This sector accounted for about 20% of the increase from the November 30, 2009, low.

• **Financials:** At the November 30, 2007, screening date, financials comprised approximately one-third of the total *Dividend Stream*, but today they account for only 18%. Recent growth has been strong—with over \$43 billion from the bottom in 2009 after the cuts through today. The latest increase came after the Fed's approval of their stress test results. On the other hand, financials are still over \$22 billion short of their November 30, 2007, high—the only sector that is still below its pre-financial crisis highs.

• **Broad Growth:** It is remarkable to us that 9 out of 10 sectors have grown from the November 30, 2007, level and all 10 are higher than they were on November 30, 2009.

Positioning to Capture the Market's Dividend Growth We continue to believe it is important to be broadly diversified in the market to capture the dividend growth. Financial firms, though still on the comeback trail, are widely expected to continue growing their dividends, pending approval from the U.S. government. Information technology firms have large amounts of cash, so we may see more dividend initiations as well as dividend growth from that sector. Ultimately, strategies focused on looking backward and on regular cycles of 5, 10 or 20 years of consecutive dividend growth are likely to miss out on the new up-and-coming dividend payers (or those that cut dividends during the crisis, such as the aforementioned Bank of America, Wells Fargo and J.P. Morgan). With WisdomTree's U.S. dividend family, once a firm indicates a regular dividend and meets other market capitalization and

liquidity screens, it becomes eligible for inclusion, allowing these strategies to move quickly to capture the U.S. *Dividend Stream* as it evolves. **Unless otherwise noted, sources are WisdomTree and Bloomberg.**

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