

Microsoft: Example of Technology Sector's Dividend Growth Leadership

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In today's environment, one particular area of focus has been dividend-paying equities, made attractive not only because of the current income but also because of the potential for future growth of that income. Given concern about interest rates rising, there has been an even greater focus on companies that have potential to deliver dividend growth over companies with just the highest dividend yields. **Technology Sector Leading Dividend Growth** There have been large changes in the composition of dividends and dividend growth in the United States over the last five to six years. Back in 2007, the technology sector comprised only 5.6% of the WisdomTree Dividend Stream®, but today (September 24, 2013) it comprises 14.2%. It is by far the leading sector in terms of growth over this period. Microsoft is the latest technology firm to announce a large increase—a quarterly dividend increase of 22% and a \$40 billion share repurchases program. Amy Hood, chief financial officer of Microsoft, said, “These actions reflect a continued commitment to returning cash to our shareholders.”¹ The following are a few other large tech firms that have announced dividend increases in 2013:² • **Apple**—15% increase • **IBM**—11.8% increase • **Cisco**—21.4% increase • **Qualcomm**—40% increase • **Texas Instruments**—33% increase **Backward-Looking Strategies May Not Be Inclusive** These examples highlight an important facet of dividend investing: companies with a long history of dividend growth may not be the key drivers of tomorrow's dividend growth. Historically, for example, technology companies have been associated with reinvesting the bulk of their profits into their businesses to finance future growth, but more recently, some have favored share buybacks, dividend initiation or dividend increases. Since this trend in technology stocks is fairly recent (Cisco just began paying in 2011, for instance, and Apple in 2012), backward-looking dividend growth screens with five-, ten- or twenty-year periods may not fully capture these dividend initiations or increases. Microsoft will have nearly ten consecutive years of dividend increases in 2014, marking the first time it can be included in indexes that screen for companies that have ten consecutive years of dividend growth. **Can You Capture Broad Dividend Growth with Low Technology Exposure?** The [WisdomTree U.S. Dividend Growth Index](#) is designed to screen firms based on certain fundamental metrics that I believe are associated with a greater potential for future dividend growth. In essence, the methodology strives to identify a basket of companies that can deliver above-average dividend growth, rather than just selecting the dividend growers of yesterday. As a result of the methodology, the WisdomTree U.S. Dividend Growth Index currently has an over-weight allocation toward the technology sector, compared to its benchmark index (NASDAQ US Dividend Achievers Select Index). The current technology exposure as of September 24, 2013, is below: • [WisdomTree U.S. Dividend Growth Index](#) (WTDGI)—20.5% • NASDAQ US Dividend Achievers Select Index (DVG)—5.9% **Forward-Looking Dividend Growth Has Led Recently** To compare how the different

selection methodologies translate to dividend growth in underlying components, I examined the median dividend growth of the underlying components of the WTDGI and the DVG indexes. • In the recent one-year period, there was an almost 8-percentage-point difference in the median dividend growth rates, with the WTDGI index leading the way. Over three and five years, the difference was 2.4% and 3.7% higher, respectively.

Median Dividend Growth			
Index	1 Year	3 Year	5 Year
WisdomTree U.S. Dividend Growth	18.7%	15.3%	13.3%
NASDAQ US Dividend Achievers Select	10.8%	11.6%	10.9%

Source: Bloomberg, WisdomTree (9/24/13). Past performance is not indicative of future results.

Diversified Exposure to Dividend Growth Although the technology sector is currently an over-weight, compared to the benchmark, the WisdomTree U.S. Dividend Growth Index is designed to provide a diversified exposure across all sectors. The Index rebalances annually in December, based on a defined set of fundamental metrics, and will tend to over-weight companies and, as a result, their sectors, which the Index methodology identifies as having the best potential for dividend growth. I believe this methodology provides a dynamic selection criteria designed to capture the current shifting trend in the U.S. dividend market. To represent the dividend market and capture its growth, we believe one must include these new up-and-coming dividend payers quickly within a dividend index methodology. The recent growth rates in dividends discussed above illustrate why this methodology difference in dividend indexes can have important implications. For current holdings of the WisdomTree U.S. Dividend Growth Index, please click [here](#). 1“Microsoft announces quarterly dividend increase and share repurchase program,” September 17, 2013. <http://www.microsoft.com/investor> 2Source: WisdomTree, Bloomberg.

Important Risks Related to this Article

You cannot invest directly in an index. Dividends are not guaranteed and a company's future abilities to pay dividends may be limited. A company currently paying dividends may cease paying dividends at any time. Investments focusing on certain sectors and/or smaller companies increase their vulnerability to any single economic or regulatory development. This may result in greater share price volatility.