Risks of Dividend Strategies Overweight in Utilities

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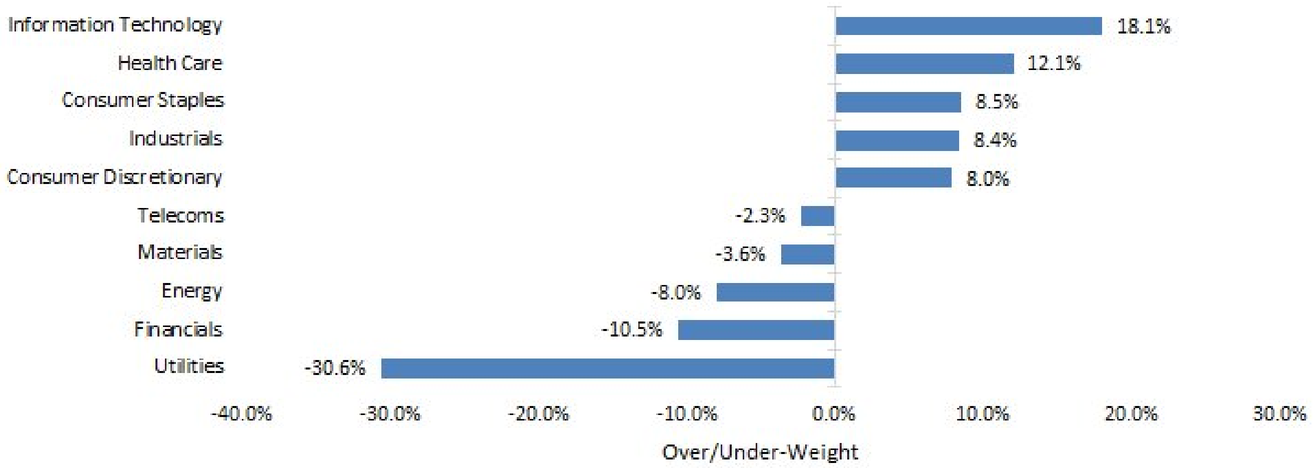
One of the major market themes of 2016 has been a declining interest rate environment, which has helped yield-sensitive assets such as utilities and telecommunications stocks. One of the most popular dividend indexes, the Dow Jones U.S. Select Dividend Index, has 30% of its weight allocated to the Utilities sector. Given the declining interest rates, this has been a particularly strong equity strategy in 2016. As of August 16, 2016, the S&P 500 Index was up just over 8%, while the Dow Jones Select Dividend Index was up 16.5%—almost the exact same return as the S&P 500 Utilities sector's return of 16.4%.1 While we expect the global low-yield environment to persist for the foreseeable future, which should support yield-sensitive assets, on a longer-run basis the valuations in the Dow Jones Select Dividend Index may limit its relative performance potential. One dividend strategy with valuations that look more attractive today: the quality and dividend growth part of the market. Typically, when we screen for factors such as profitability (return on equity (ROE) and return on assets (ROA)) and earnings growth, we might expect to pay a premium market multiple compared to a value strategy that just looks at current dividend income. But in today's market environment, the quality dividend growth side of the market is selling at a lower P/E ratio and a higher shareholder yield.2 • The quality metrics—such as ROE—are significantly higher for the quality index than for the high-dividend index, and this makes potential dividend growth higher. • Earnings growth estimates over the coming three to five years are 9.6% for the quality dividend growth part of the market, compared to 6.0% for the Dow Jones Select Dividend Index. • The quality side of the market is also doing more extensive stock buybacks. The combined dividend and net buyback yield is 5.6%, while the Dow Jones Select Dividend Index has a combined dividend and net buyback yield of 4.3%. **WisdomTree. U.S. Quality Dividend Growth Index vs. Dow Jones Select Dividend Index**

	WT U.S. Quality Dividend Growth Index	Dow Jones Select Dividend Index
Price/Earnings	19.2x	22.1x
Earnings Growth Expectations	9.6%	6.0%
Earnings Yield	5.2%	4.5%
Dividend Yield/Earnings Yield	46.2%	76.5%
3-yr Avg Return on Equity	27.8%	20.0%
3-yr Avg Return on Assets	7.7%	4.2%
ROE x Earnings Retention	14.9%	4.7%
Trailing 12M Dividend Yield	2.4%	3.5%
Net Buyback Yield	3.2%	0.8%
Shareholder Yield	5.6%	4.3%

WT Sector Over/Under-weight to Dow Jones



Sources: WisdomTree, FactSet, as of 7/30/2016. Past performance is not indicative of future results. 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.

Differentiated Exposures In addition to the unique fundamental characteristics of the WisdomTree U.S. Quality Dividend Growth Index (WTDGI), we find some noteworthy over- and under-weights in the portfolio. The biggest over-weight is in Information Technology. We find that this reflects WisdomTree's forward-looking approach to dividend growth. Many indexes that rely on backward-looking dividend growth screens miss out on the performance of the Information Technology sector, where we often find relatively younger companies. Contrast this with WTDGI's under-weights to Utilities and Financials, typically sectors with higher leverage. While there are many strategies attempting to capture dividend growth in the market today, they often utilize backward-looking screening criteria. At WisdomTree, we believe that WTDGI's forward-looking methodology offers a differentiated approach. We believe WTDGI offers investors a unique way to access quality companies by screening for fundamental characteristics such as return on equity and return on assets. Pair this with a screen for long-term growth expectations, and we think WTDGI becomes a powerful tool for investors looking for quality companies as well as dividend growth. 1Sources: WisdomTree, Bloomberg as of 8/18/16. 2Sources: WisdomTree, Bloomberg as of 7/30/2016.

Important Risks Related to this Article

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