

The Drawback of Selecting Stocks Based on Backward Looking Dividend Growth

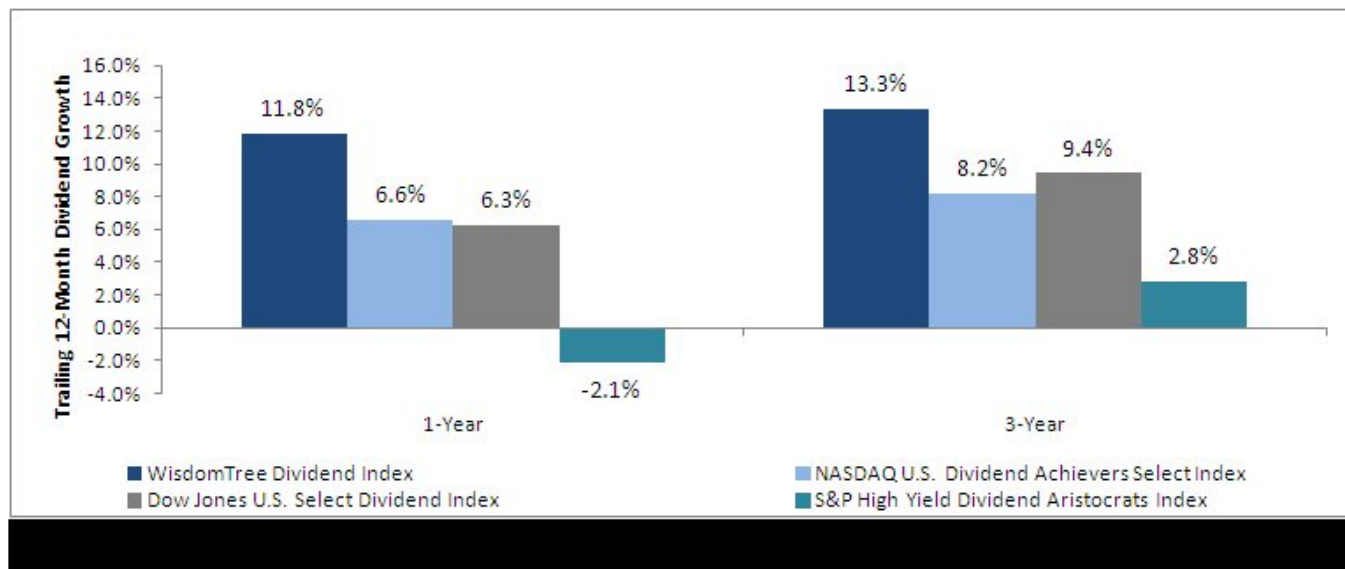
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There are three popular dividend indexes that each try to screen for historical dividend growth in some fashion (“growth screeners”): • The Dow Jones U.S. Select Dividend Index requires a five-year non-negative dividend-per-share growth and dividends paid in each of the last five years. • The NASDAQ US Dividend Achievers Select Index requires 10 consecutive years of positive dividend growth. • The [S&P High Yield Dividend Aristocrats Index](#) requires 20 consecutive years of positive dividend growth. We all know the disclosure—past performance is not indicative of future results. We believe that is also true with respect to dividend changes. Companies with a long history of dividend growth may not be the key drivers of tomorrow’s dividend growth. We believe one has to be more dynamic in one’s selection criteria to capture the current shifting trend in the U.S. dividend market. Recent evidence bears this out, as we will explain below. **Missing Out** Counterintuitively, the backward-looking dividend growth screens can actually be counterproductive for capturing the changing broader dividend growth of all dividend payers. The WisdomTree Dividend Index includes over 1,300 dividend payers and was designed to be a broadly inclusive index of dividend payers in the United States with no restrictive selection criteria. • On a one-year basis for the period ending April 30, 2013, the growth screeners (specifically the three mentioned above) had trailing 12-month dividend growth that was essentially half that of the broader WisdomTree Dividend Index. • On a three-year basis for the period ending April 30, 2013, each of these growth screening indexes had trailing 12-month dividend growth that lagged that of the WisdomTree Dividend Index by approximately 4 to over 10 percentage points per year.

Trailing 12-Month Dividend Growth of Dividend-Focused Indexes (4/30/2010-4/30/2013)



Average Annual Performance as of 3/31/2013

	WT Index Inception Date	YTD	1-Year	3-Year	5-Year	Since WT Index Inception	10-Year
WisdomTree Dividend Index	6/1/2006	11.12%	15.84%	15.43%	6.60%	5.84%	N/A
NASDAQ U.S. Dividend Achievers Select Index		10.82%	14.97%	13.06%	6.94%	6.62%	7.28%
Dow Jones U.S. Select Dividend Index		11.78%	17.93%	15.87%	6.70%	4.75%	9.39%
S&P High Yield Dividend Aristocrats Index		14.35%	20.67%	14.32%	9.25%	6.81%	10.06%

Conclusion The historical dividend growth requirements for the NASDAQ US Dividend Achievers Select, Dow Jones U.S. Select Dividend and S&P High Yield Dividend Aristocrats indexes affect the type of dividend growth that these indexes are able to capture. Over the last one- and three-year periods, all three indexes that screen based on historical dividend growth trends have seen their dividend growth considerably lag the dividend growth of a broad index of dividend payers with no restrictions on the types of dividend payers included. The requirement for historical dividend increases keeps the very firms currently driving the fastest dividend growth out of many of these indexes. The WisdomTree Dividend Index, on the other hand, can include new or re-established dividend payers much more quickly, which explains its superior one- and three-year growth in trailing 12-month dividends. *View Jeremy Schwartz discuss dividends (Video) Read our Dividend Growth series [here](#).*

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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.