

U.S. Quality Dividend Growth: An Alternative to the S&P 500

Published March 19, 2018

Jeff Weniger, CFA

Head of Equity Strategy

We are coming up on five years since we launched the [WisdomTree U.S. Quality Dividend Growth Fund \(DGRW\)](#), our \$2.13 billion ETF1 that tracks the [WisdomTree U.S. Quality Dividend Growth Index](#). Its benchmark is the NASDAQ US Dividend Achievers Select Index, but figure 1 also includes the [S&P High Yield Dividend Aristocrats](#) and the [S&P 500 Indexes](#).

Figure 1: WisdomTree U.S. Quality Dividend Growth Index (Hedged Units) Performance

Bloomberg Ticker	Name	1 Year	3 Years	Since ETF Inception
DGRW	WisdomTree U.S. Quality Dividend Growth Fund	26.95%	12.44%	13.98%
WTDGI	WisdomTree U.S. Quality Dividend Growth Index	27.43%	12.80%	14.31%
DVG	NASDAQ US Dividend Achievers Select Index	22.43%	10.39%	11.01%
SPHYDA	S&P High Yield Dividend Aristocrats Index	16.32%	11.83%	12.67%
SPX	S&P 500 Index	21.82%	11.41%	13.29%

Sources: Bloomberg, WisdomTree. ETF inception is 5/22/13. ETF returns measured by NAV. Data through 12/29/17.

Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Performance data for the most recent month-end is available at www.wisdomtree.com.

WisdomTree shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Total returns are calculated using the daily 4:00 p.m. EST net asset value (NAV). Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where Fund shares are listed. Market price returns do not represent the returns you would receive if you traded shares at other times.

Click [here](#) for DGRW standardized performance.

The Fundamentals Quilt

Figure 2 shows a “periodic table” or “quilt” for the fundamentals of the WisdomTree U.S. Quality Dividend Growth Index, along with the other Indexes.

The top of the table is most desirable, and each appearance there gets 3 “points,” with lower points below. The far-right column sums the points. For example, the S&P High Yield Dividend Aristocrats Index’s 2.60% dividend yield is the highest of the four Indexes, so it gets 3 points for that column. The Index’s sum of 10 points for all columns is shown on the right.

Strikingly, the S&P 500 often appears in the very last row. It gets just 7 points. The WisdomTree Index gets 13.

Figure 2: U.S. Equity Fundamentals “Quilt”

	Row Point Value	Dividend Yield	P/E Ratio (fwd)	Price/Book	Price/Sales	Return on Equity (ROE)	Return on Assets (ROA)	2018 Earnings Growth Est.	Total Points*
Most Desirable ↑ ↓ Least Desirable	3	S&P High Yield Div. Aristocrats (2.60%)	WisdomTree U.S. Quality Dividend Growth Index (18.9)	S&P High Yield Div. Aristocrats (3.14)	NASDAQ Dividend Achievers Select (1.61)	WisdomTree U.S. Quality Dividend Growth Index (21.3%)	NASDAQ Dividend Achievers Select (5.3%)	S&P 500 (12.5%)	WisdomTree U.S. Quality Dividend Growth Index (13)
	2	WisdomTree U.S. Quality Dividend Growth Index (2.19%)	S&P 500 (20.0)	S&P 500 (3.30)	S&P High Yield Div. Aristocrats (1.67)	NASDAQ Dividend Achievers Select (18.8%)	WisdomTree U.S. Quality Dividend Growth Index (4.9%)	NASDAQ Dividend Achievers Select (8.0%)	NASDAQ Dividend Achievers Select (12)
	1	NASDAQ Dividend Achievers Select (1.94%)	NASDAQ Dividend Achievers Select (21.5)	WisdomTree U.S. Quality Dividend Growth Index (4.30)	WisdomTree U.S. Quality Dividend Growth Index (1.99)	S&P High Yield Div. Aristocrats (14.0%)	S&P High Yield Div. Aristocrats (4.0%)	WisdomTree U.S. Quality Dividend Growth Index (6.7%)	S&P High Yield Div. Aristocrats (10)
	0	S&P 500 (1.89%)	S&P High Yield Div. Aristocrats (21.8)	NASDAQ Dividend Achievers Select (4.37)	S&P 500 (2.24)	S&P 500 (13.8%)	S&P 500 (2.8%)	S&P High Yield Div. Aristocrats (4.5%)	S&P 500 (7)

Sources: Bloomberg, WisdomTree. Data as of 12/29/17. Past performance is not indicative of future results. You cannot invest directly in an Index. *0 to 3 points for each column, depending on rank. Total points are the sum of the other 7 columns.

Smart “Beta” or Modern “Alpha”?

A metric in figure 2 jumps out for investors who focus on profitability for shareholder wealth creation—and that’s the WisdomTree Index’s 21.3% return on equity, about 8 percentage points more than the S&P 500. Both the WisdomTree Index and the S&P 500 pay out a bit more than 40% of their earnings in dividends, retaining the rest. Investors have a choice with respect to the nearly 60% of earnings retained: own a collection of firms that redeploy capital at middling ROEs or own a different group at high ROEs.

That’s how we designed the Index; the strategy is to improve upon the S&P’s profitability metrics, not mirror them. What we’re doing isn’t smart beta; it’s something else, a rules-based alpha generator. It’s *modern alpha*.

Investors can choose from two paths in 2018: they can dive in with money managers who are indexing or closet-indexing the S&P 500. If their portfolio mimics the S&P, they will have stocks that pay a 1.89% dividend, trade for 20 times forward earnings and have an ROE of 13.8%. Or they can take the other path, which displays ROEs that are significantly higher than those of the S&P, with a lower P/E (18.9) and a higher dividend yield (2.19%).

DGRW can fill an asset allocation’s U.S. equity sleeve because the nature of the screen—300 companies weighted by their dividend amounts—identifies mainstream top holdings like Exxon Mobil, Johnson & Johnson and Wells Fargo. It’s a broad allocation that is designed for major pieces of portfolios.

We designed our Index this way because we don’t want investors treating DGRW as a fund that can “satellite around”² active managers or the S&P 500. We are pulling the curtain back on the S&P 500 and funds that track it because modern alpha concepts such as the ones used in this ETF can take over the core of a portfolio.

¹Source: Bloomberg, as of 3/7/2018.

2A reference to a “core-satellite” strategy, where a main fund or ETF represents the bulk of the allocation, while other smaller holdings act as satellites around it, much as the massive sun dominates the solar system while the tiny planets satellite around it.

Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. Funds focusing their investments on certain sectors increase their vulnerability to any single economic or regulatory development. This may result in greater share price volatility. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

References to specific securities and their issuers are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations to purchase or sell such securities.