

Win by Not Losing

Published September 26, 2024

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Key Takeaways

- In the value vs. growth debate, growth stocks significantly outperformed value stocks over the past decade, driven by the “Magnificent 7.” The increasing dividend payments by large-cap growth companies blur the lines between growth and value strategies, as evidenced by [DGRW](#) keeping pace with the S&P 500 despite the dominance of these growth companies.
- An all-weather equity strategy like [DGRW](#) helps investors stay invested through both up and down markets, emphasizing the value of time in the market over trying to time it.

Many are familiar with this bit of simple investment math:

Starting with \$100, if the investment performance of the account drops the value to \$50 at the end of the first year, what percentage return is required in the second year to bring the overall value back to \$100? Many have an ingrained sense of wanting to “get back to even” after losing an amount of money, be it in a casino or in an investment.

The answer is 100%, meaning a doubling of the \$50 to get back to the original \$100. This becomes important in recognizing that over longer periods, there ends up a greater value in avoiding the 50% loss than in securing any particular gain.

It is difficult to reliably find opportunities that even have a chance of a 100% return in a given 12-month period.

Growth Has Driven U.S. Equity Performance over the Past 10 Years

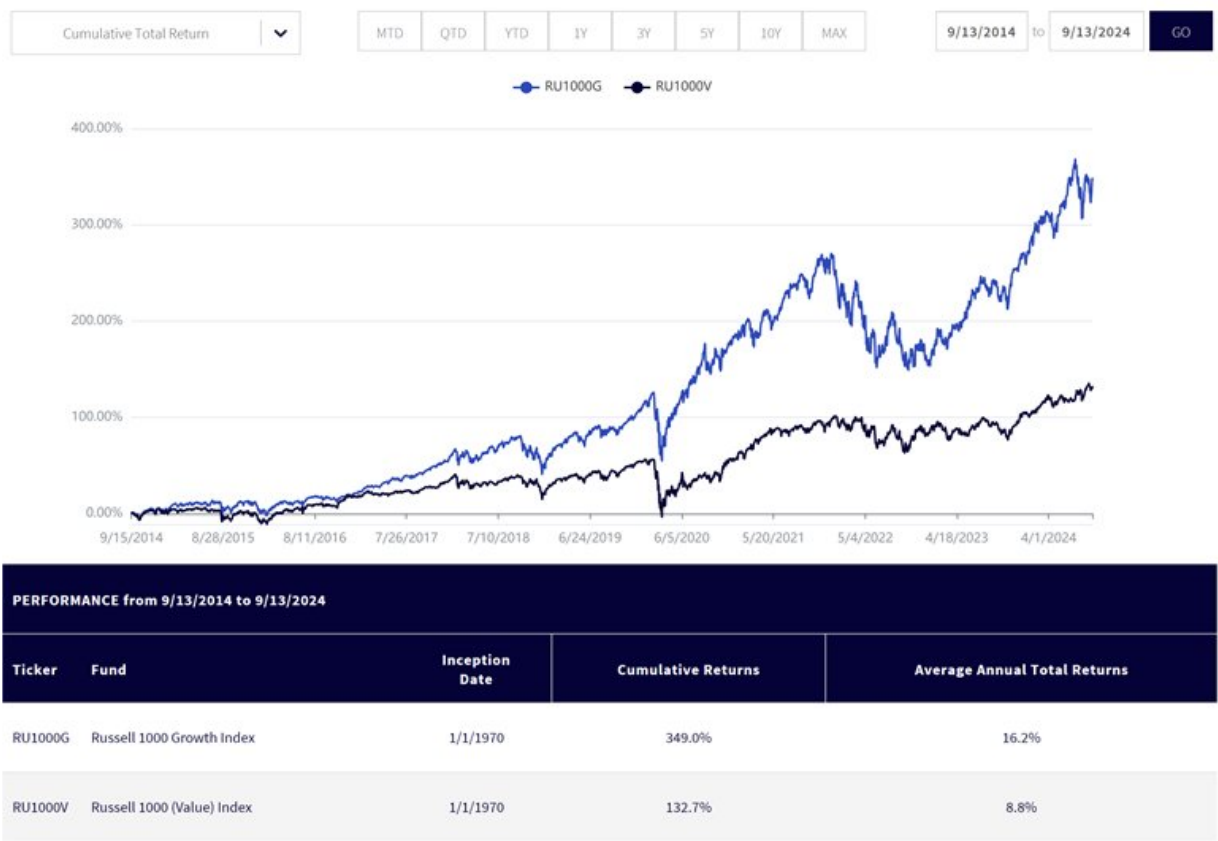
Investors can spend a lot of time thinking about “growth” and “value” and seeking to predict which may or may not outperform going forward. Over the last 10 years, for the most part, we have seen the growth style dominate the value style. In figure 1:

- The Russell 1000 Growth Index delivered a return of 349.0%, which was 16.2% per year.
- The Russell 1000 Value Index delivered a return of 132.7%, which was 8.8% per year.

When we think about the so-called “Magnificent 7” companies—Alphabet, Apple, Amazon, Microsoft, Meta Platforms, Nvidia and Tesla—for the vast majority of the past 10 years, these have been wholly on the growth side of the ledger. At different points, we have seen some of them attain overall market

capitalizations of \$1 trillion, \$2 trillion or even, in some cases, \$3 trillion. This appreciation in market capitalization has been a major driver of the 16.2% annualized return of the Russell 1000 Growth Index.

Figure 1: Russell 1000 Value vs. Growth over the Past 10 Years



Source: WisdomTree’s Fund Comparison Tool, with data accessed on 9/16/24. Past performance is not indicative of future results. You cannot directly invest in an index.

Dividend Growth: Value, Growth or Blend?

On May 22, 2013, WisdomTree launched the [WisdomTree U.S. Quality Dividend Growth Fund \(DGRW\)](#), which is designed to track the total return performance, before fees and expenses, of the [WisdomTree U.S. Quality Dividend Growth Index](#). A key part of the genesis story behind this strategy was that many dividend-growth-oriented approaches require constituents to have demonstrated past histories of 5, 10 or even 20 years of past dividend growth.¹

- In 2012, Apple initiated a new dividend policy.¹ For the better part of the past 12 years, the media has been reporting on how much cash Apple both generates and already has on its balance sheet. The company has done a staggering amount of share repurchasing, and it has also sustained one of the world’s largest distributions of cash dividends.³

- In 2024, Meta Platforms⁴ and Alphabet⁵ each initiated dividend payments. Each of these firms also has a large amount of cash and has demonstrated a capability to generate that cash for a sustained time. Neither is distributing a cash dividend on par with Apple out of the gate, but it is difficult to argue that the growth potential over the coming decade could be there.

What’s clear is that more and more of the largest companies are starting to pay dividends. In the past, when a chunk of firms in the trillion-dollar market capitalization club were not paying dividends, there was a huge split between what was meant by “value” or “growth” as they related to dividends. From 2024 onward, it’s possible that the picture changes.

However, even with all of that said, over the past 10 years, when we know that “growth” crushed the performance of value, somehow [DGRW](#) was able to keep pace with the S&P 500 Index—an index where the so-called “growth market capitalization behemoths” have been in positions of substantial weight the entire time.

Figure 2: Standardized Returns

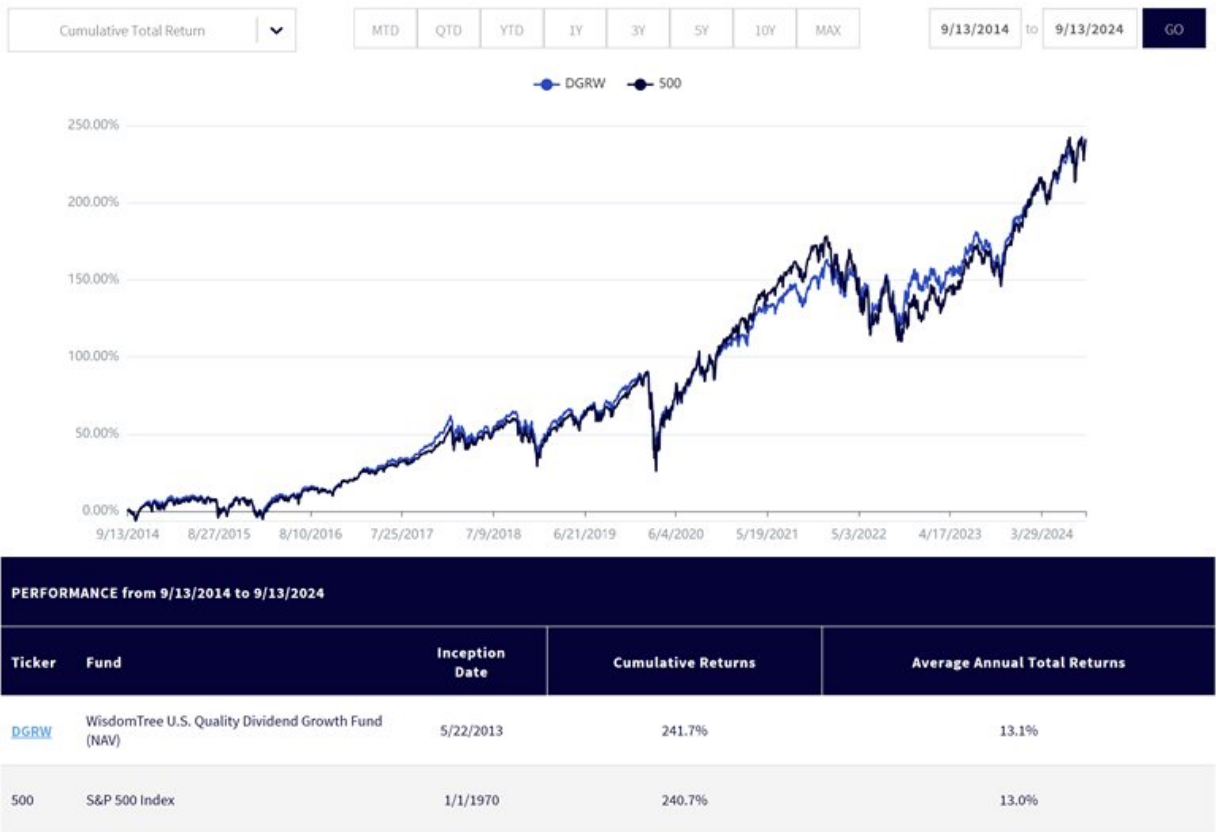
Fund/Index Name	Fund Ticker	Fund Inception Date	Fund Expense Ratio	Year-to-Date	1-Year	3-Year	5-Year	10-Year
WisdomTree U.S. Quality Dividend Growth Fund (NAV)	DGRW	5/22/2013	0.28%	11.91%	19.11%	11.51%	14.62%	12.75%
WisdomTree U.S. Quality Dividend Growth Fund (MP)	DGRW	5/22/2013	0.28%	11.89%	19.16%	11.51%	14.63%	12.74%
S&P 500 Index				15.29%	24.56%	10.01%	15.05%	12.86%

Source: WisdomTree, specifically data from the Fund Comparison Tool in the PATH suite of tools, as of 9/16/24. NAV denotes total return performance at net asset value. MP denotes market price performance. **Past performance is not indicative of future results. Investment return 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. Current performance may be lower or higher than the performance data quoted. For the most recent month-end and standardized performance and to download the Fund prospectus, please click [here](#).**

The overall results were extremely close. Admittedly, the eyes dart to roughly the center of the page—the “COVID-19 drawdown.” Coming out of this drawdown, the black line—the S&P 500 Index—did end up in the lead. However, during the volatility that followed for much of 2022, the blue line—[DGRW](#)—did come back to the forefront.

That is a bit of a notable theme—even if past performance cannot tell us the future with certainty, we are starting to see the germ of a possible way to think about expectations of a difference in performance in different market regimes.

Figure 3: DGRW Kept Pace with the S&P 500 Index during a Strong 10-Year Period for Equities



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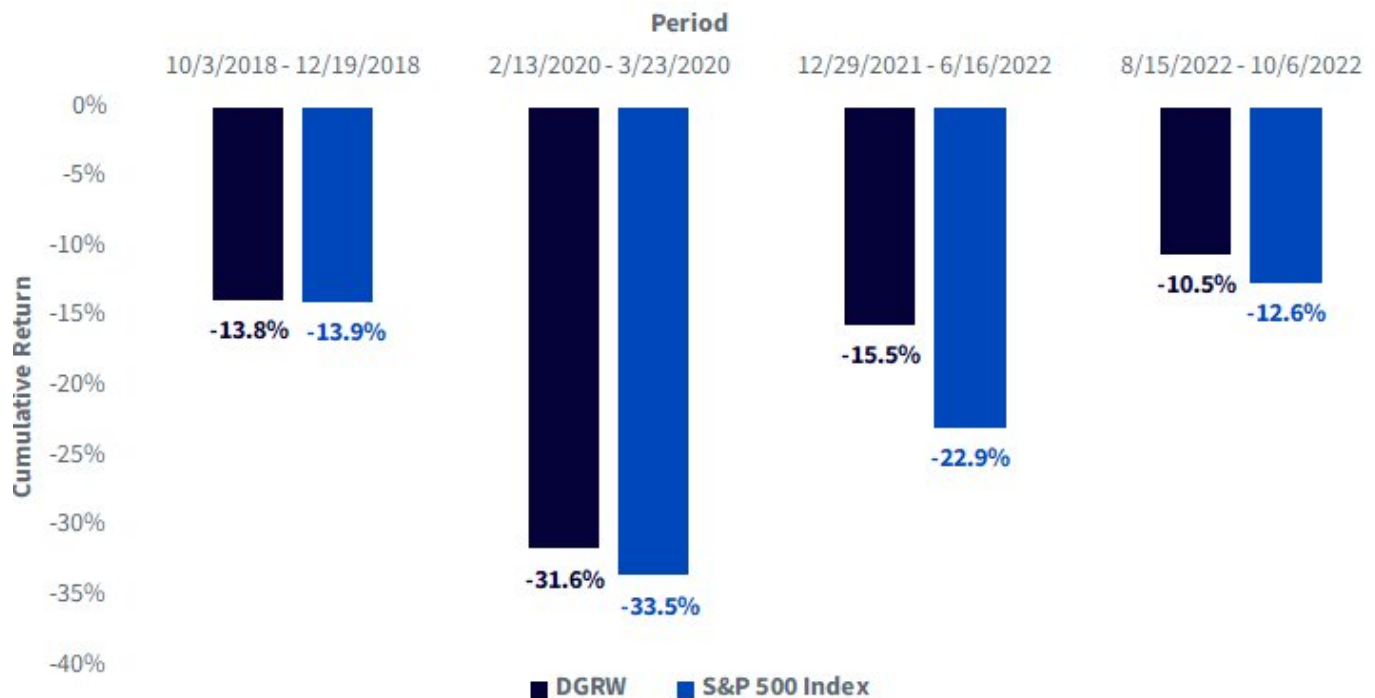
Market Downturns

In our example at the beginning of this piece, we outlined a 50% drawdown. While equities, even the S&P 500 Index, do have 50% drawdowns from time to time, fortunately, they do not often occur at this magnitude. Judging by history, drawdowns in the 10%, 20% or 30% range can and do occur far more often.

We sought to measure the performance of **DGRW** vs. the S&P 500 Index in “down markets,” focusing particularly on periods where we saw drawdowns of greater than 10%.

- Over this 10-year period—which we can note was a relatively strong equity market period overall—we did experience a few drawdowns of greater than 10%, four of which are shown in the figure that follows.
- We could never state that the past tells us the future with certainty—just because **DGRW** happened to go down less in some past periods cannot guarantee that will always be the case. What we can do is state that consistency is powerful.
- The “COVID-19 drawdown” from basically mid-February was one of the fastest drops of roughly 30% that we had ever seen in the S&P 500 Index. On the spectrum of “how extreme can things get?” that is a good example toward the further end of that range.

Figure 4: Four Drawdowns Greater Than 10% during the Last 10 Years



Source: WisdomTree, specifically data from the Fund Comparison Tool in the PATH suite of tools, as of 9/16/24. NAV denotes total return

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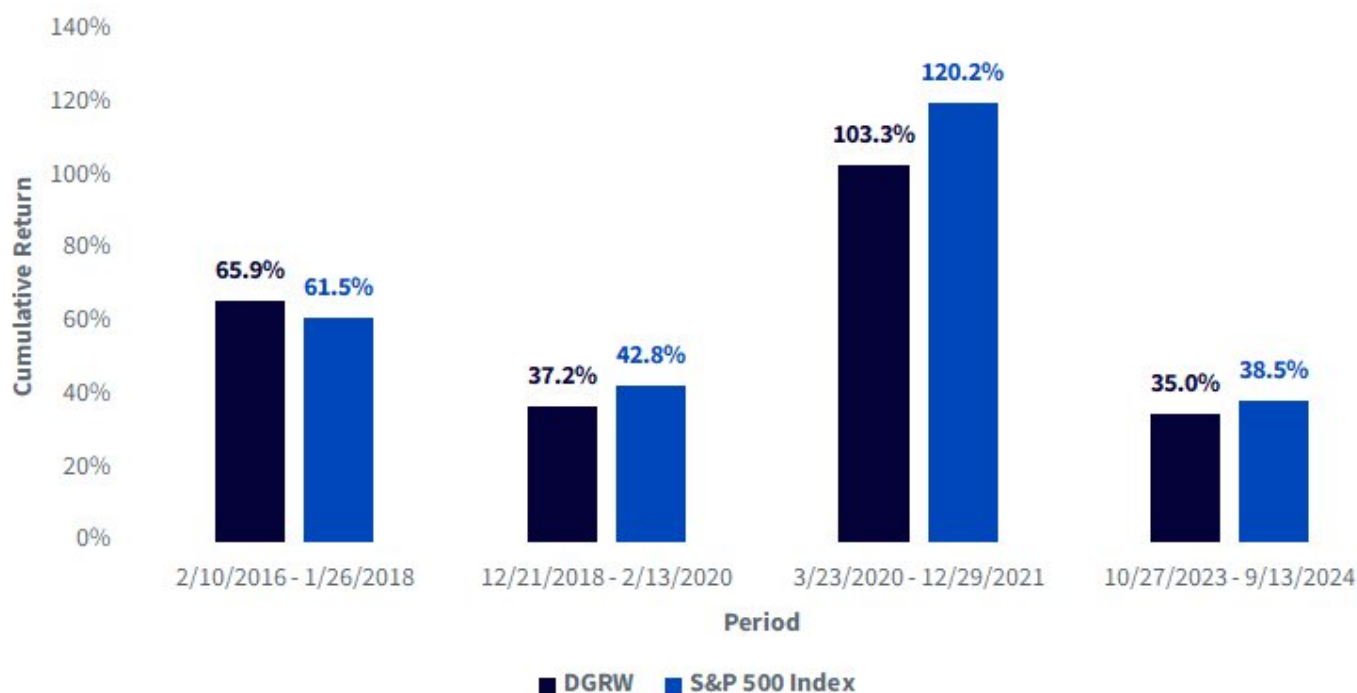
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What about the “Up” Trends?

Now, if an investor is preparing for a market downdraft, that is one thing, but if an investor is seeking an investment to be able to weather different environments over a 10-year period, that is quite another. It is, therefore, important that an equity strategy stays in the game in market “up” trends while also having that appropriate balance of possibly dropping less in downdrafts.

- History has shown that the strongest upward-trending markets usually follow the toughest “down” trends. We can see that from March 23, 2020, to December 29, 2021, [DGRW](#) did deliver a 103.3% cumulative return even while the S&P 500 Index went up 120.2%.

Figure 5: Four Big “Up” Trends in U.S. Equities during the Past 10 Years



Source: WisdomTree, specifically data from the Fund Comparison Tool in the PATH suite of tools, as of 9/16/24. NAV denotes total return

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Time in the Market over Timing the Market

The importance of a so-called "all-weather" equity strategy that has the potential to deliver a compelling return, whether the trend is up or down, is actually less about the pure numbers and more about confidence. If the strategy can give the investor the confidence to not feel the need to try to time a downturn and trade in and out periodically, the investor will then stay in the market longer and allow for the process of compounding to work more effectively.

One of the most important historical facts to remember is that some of the strongest upward moves have occurred directly after some of the most severe downward moves. It is tempting to try to time the market, but the real consequence for many who try is actually experiencing at least some of the downdraft and then missing the subsequent upward move. Missing these big upward moves has had a major impact on the long-term return picture.

1 Sources: Dow Jones U.S. Select Dividend Index Methodology, S&P U.S. Dividend Growers Methodology Factsheet and the S&P High Yield Dividend Aristocrats Index Methodology.

2 Source:

<https://www.apple.com/newsroom/2012/03/19Apple-Announces-Plans-to-Initiate-Dividend-and-Share-Repurchase-Program/#:~:text=Subject%20to%20declaration%20by%20the,begins%20on%20July%201%2C%202012.>

3 Source: Bloomberg.

4 Source:

<https://investor.fb.com/investor-news/press-release-details/2024/Meta-Reports-Fourth-Quarter-and-Full-Year-2023-Results-Initiates-Quarterly-Dividend/default.aspx#:~:text=Meta%20Initiates%20Quarterly%20Dividend,business%20on%20February%2022%2C%202024.>

5 Source: Alphabet investor relations press release announcing quarterly results on April 25, 2024.

Important Risks Related to this Article

There are risks associated with investing, including the 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. Dividends are not guaranteed, and a company currently paying dividends may cease paying dividends at any time. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.