

RISKS OF DIVIDEND STRATEGIES OVERWEIGHT IN UTILITIES

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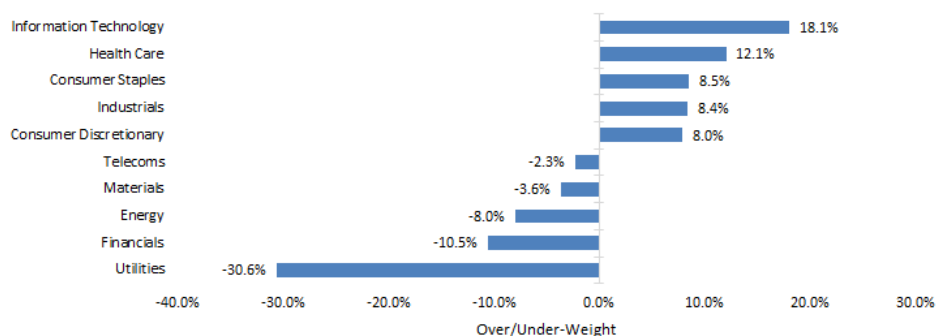
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One of the major market themes of 2016 has been a declining interest rate environment, which has helped yield-sensitive assets such as utilities and telecommunications stocks. One of the most popular [dividend](#) indexes, the [Dow Jones U.S. Select 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%.

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

WT Sector Over/Under-



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.

weight to Dow Jones

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

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You cannot invest directly in an index.

DEFINITIONS

Dividend : A portion of corporate profits paid out to shareholders.

Dow Jones U.S. Select Dividend Index : The index is a modified market capitalization approach and weights by dividend yield. Stocks are selected for fundamental strength relative to their peers, subject to various screens such as dividend quality and liquidity.

Interest rates : The rate at which interest is paid by a borrower for the use of money.

S&P 500 Index : Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.

Return on Equity (ROE) : Measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

Return on assets (ROA) : Firm profits (after accounting for all expenses) divided by the firm's total assets. Higher numbers indicate greater profits relative to the level of assets utilized to generate them.

Dividend growth : The growth in trailing 12-month dividends for the specified universe.

Yield : The income return on an investment. Refers to the interest or dividends received from a security that is typically expressed annually as a percentage of the market or face value.

Quality : Characterized by higher efficiency and profitability. Typical measures include earnings, return on equity, return on assets, operating profitability as well as others. This term is also related to the Quality Factor, which associates these stock characteristics with excess returns vs the market over time.

Buyback : When a company uses its own cash to purchase its own outstanding shares; may positively impact the share price.