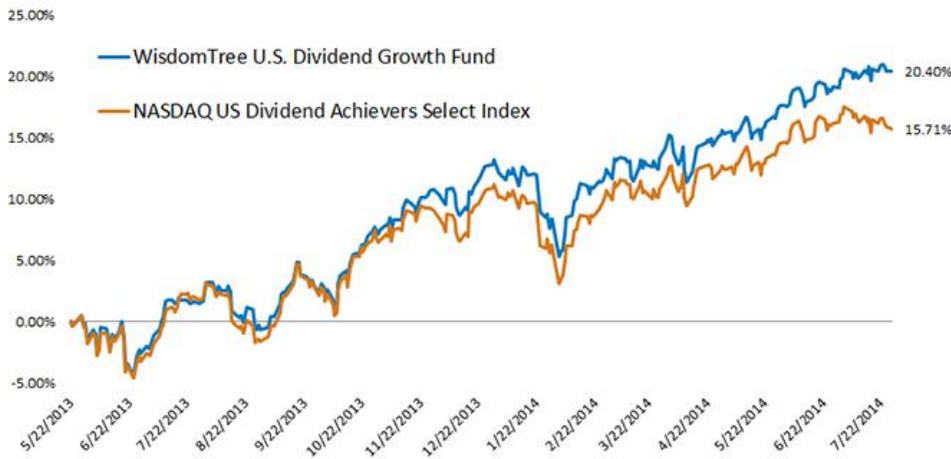

WHEN IT COMES TO DIVIDENDS, LOOKING BACK MAY COST YOU

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Today, some of the most widely followed exchange-traded funds (ETFs) that focus on dividend growth employ backward-looking growth screens that require a company to have paid—and in some cases raised—dividends for 5, 10 or even 20 years before becoming eligible for inclusion. This seems like a smart idea, but it keeps many investors from capitalizing on shifting trends in the dividend landscape, specifically when it comes to newer payers and firms recovering from recent dividend contractions. Dividends have been growing at an incredible pace in recent years, and the Information Technology sector has led the charge, accounting for more than 45% of the increase in dollar dividends.¹ But investors in ETFs that use backward-looking growth screens may not see many of these dividend leaders in their portfolios, potentially for many years. Over a year ago, WisdomTree launched a forward-looking [dividend growth](#) ETF that seeks to capture dividend growth trends that often are not captured by indexes that take a backward-looking approach. DGRW, the [WisdomTree U.S. Dividend Growth Fund](#), looks at [fundamental](#) metrics that could indicate future dividend growth potential. Two categories of variables govern stock selection: 1) **Quality**, defined as companies with high [return on equity](#) and high [return on assets](#)—both key profitability metrics tied to dividend growth potential 2) **Growth**, defined as companies with high expected earnings growth, as future dividends must be funded from cash flows companies generate To quantify the cost of looking backward for dividend growth, the chart below shows the performance of DGRW against its benchmark, [NASDAQ US Dividend Achievers Select \(DVG\) Index](#), which has a 10-year dividend growth look-back screen as part of its methodology. **The Cost of Looking Backward**



Sources: WisdomTree, Bloomberg, 5/22/13–7/28/14. Past performance is not indicative of future results. You cannot invest directly in an index. The start date of 5/22/13 was chosen because it is the inception date of DGRW. High double-digit returns were achieved primarily during favorable market conditions. Investors should not expect that such favorable returns can be consistently achieved. A Fund's performance, especially for very short time periods, should not be the sole factor in making your investment decision.

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.

For current performance of DGRW, [click here](#). • **Outperformance since Fund Inception**—DGRW has outperformed its benchmark index by 4.69%. An approximate 4.5% over-weight to Apple over the time period contributed 2.3% toward DGRW's outperformance.² Even though Apple only reinstated its dividend in 2012, it is now the second-largest dividend payer in the U.S., and it is responsible for approximately 2.8% of total dividends paid.³ The NASDAQ US Dividend Achievers Select Index had zero exposure to Apple over the period, and, based on the Index's current methodology, Apple would not be eligible for inclusion until 2023. • **Information Technology**— DGRW's approximate 13.2% over-weight to the Information Technology sector contributed around 4.3% toward its outperformance. In addition to Apple, an approximate 4.1% and 2.2% over-weight to Microsoft and Intel, respectively, contributed positively to performance.⁴ Neither Microsoft nor Intel was a constituent of the NASDAQ US Dividend Achievers Select Index over the period. • **Other large technology firms**, like Cisco and Oracle, also contributed positively to DGRW over the period.⁵ Cisco and Oracle, which began paying in 2011 and 2009 respectively, have both already doubled their per-share dividend rate.⁶ Neither firm was included in the NASDAQ US Dividend Achievers Select Index over the period. **Looking Forward** Newer technology payers and growers have made the Information Technology sector the second-largest dividend-paying sector, accounting for approximately 15.6% of total dividends.⁷ WisdomTree believes that exposure in this sector is important when trying to represent a proxy of the dividend-growth universe in the United States. I believe that dividend-growth stocks are attractively priced compared with traditional high-[dividend-yield](#) stocks. If the U.S. economy continues to improve and [interest rates](#) eventually increase, dividend-growth stocks may become even more important as higher-dividend-yielding stocks face pressure from reinvigorated competition that stems from higher [bond yields](#).

¹Sources: WisdomTree, Bloomberg, 11/30/07–11/30/13. ²Sources: WisdomTree, Bloomberg; Apple was a 4.4% weight in DGRW as of 7/28/14. Holdings subject to change. ³Sources: WisdomTree, Bloomberg, as of 7/28/14. ⁴Sources: WisdomTree, Bloomberg; Microsoft was a 4.2% weight and Intel was a 2.7% weight in DGRW as of 7/28/14. ⁵Sources: wisdomTree,

Bloomberg; Cisco was a 2.0% weight and Oracle was a 1.1% weight in DGRW as of 7/28/14.
⁶Sources: WisdomTree, Bloomberg, as of 7/28/14. ⁷Sources: WisdomTree, Bloomberg, as of 7/28/14.

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For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

For more investing insights, check out our [Economic & Market Outlook](#)

view the online version of this article [here](#).

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DEFINITIONS

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

Fundamentals: Attributes related to a company's actual operations and production as opposed to changes in share price.

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.

NASDAQ US Dividend Achievers Select Index: Designed to track the performance of dividend-paying companies in the U.S. that have increased their annual dividend payments for the last 10 or more consecutive years.

Dividend yield: A financial ratio that shows how much a company pays out in dividends each year relative to its share price.

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

Bond yield: Refers to the interest received from a bond and is usually expressed annually as a percentage based on its current market value.