WHY A DIVIDEND GROWTH SCREEN MAY BE COUNTERINTUITIVE?

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The terms "growth" and "value" are entrenched in the equity investment world. And although they typically describe two very distinct sides of the market, many investors look at both growth and value when considering the broad equity markets. I believe it may be useful to extend this framework when considering the vast universe of dividend-focused indexes. Considering that there are so many different types of dividend-focused indexes, to broadly characterize all of them as "value" relative to comparable market capitalization-weighted indexes of similar types of equities may not give the clearest possible picture. Additionally, I think looking at dividend indexes in a growth/value framework may actually help shed light on the differences in performance of these types of indexes over recent periods.[1] To better understand the performance differentials, I wanted to compare a "value" dividend index with a "growth" one. Since the WisdomTree Equity Income Index (WTHYE) focuses on indicated dividend yield as a primary selection criterion, it is directly sensitive to the relationship that exists between share prices and indicated dividends at each rebalance. Because of this built-in sensitivity to valuation, I chose WTHYE as my value pick. I had to look outside WisdomTree for the growth category, as I needed an index that utilized a growth inclusion screen calling for specific histories of continued dividend growth. In my opinion, the Mergent Dividend Achievers Select Index (Achievers Select) stands out and is widely followed. This modified [glossary href="Market capitalization-weighted"]market capitalization-weighted[/glossary] index employs a growth screen requiring 10 consecutive years of dividend growth from its constituent stocks. So, what did I find out when I compared the trailing 12-month dividend-growth of WTHYE with that of Achievers Select? WTHYE delivered superior trailing 12-month dividend growth over the 1- and 3-year periods, while Achievers Select was superior over the 5-year period and since WTHYE's live inception on 6/1/2006. From 6/1/2006 through 9/30/2012, the landscape of dividend-paying firms in the U.S. was influenced by financial firms cutting their dividends during the financial crisis, information technology firms initiating and growing their dividends strongly, and financial firms re-initiating and growing their dividends as the crisis abated. Essentially, while Achievers Select had less exposure to financials in the fall of 2008 (the start of the crisis), WTHYE has been able to generate greater exposure to recent dividend growers that have not yet been paying dividends for 10 years (much less growing them for that many years). If achieving strong dividend growth in different market environments is the goal, it may make sense to consider an analysis of what occurs when blending these two approaches together, as each has delivered superior dividend growth during different periods. *To discover more about why these indexes performed so differently or what their combined performance might look like, read the full commentary. Find out more about our dividend approach to equities.* [1]Period is June 1, 2006, through September 30, 2012, limited to the live history of WisdomTree's U.S. Dividend Indexes.

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