

TOO MUCH OF A GOOD THING

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We are committed to the [dividend](#) and to a very healthy and competitive dividend.

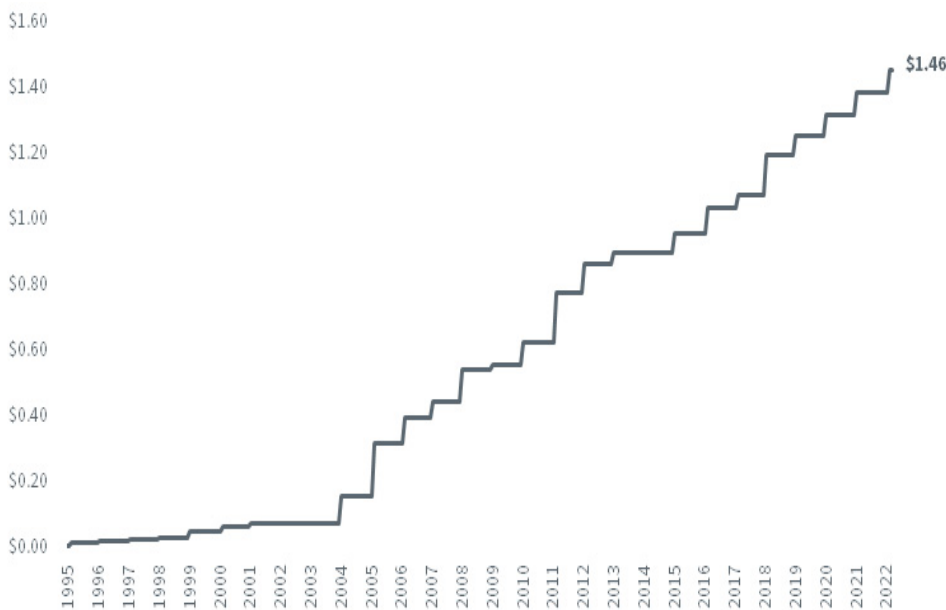
- Intel CEO Pat Gelsinger, January 27, 2023¹

Less than a month after that statement, Intel announced a reduction of its quarterly dividend, from \$0.365 dividend per share to \$0.125—a cut of 66% and a saving of \$4 billion a year.

Ostensibly, Intel’s dividend looked enticing entering the year.

The company has consistently maintained—and often raised—the dividend each year over the last 25+ years.

Intel Annual Dividend per Share



Sources: WisdomTree, FactSet, 12/31/1994-2/28/2023.

The dividend yield eclipsed 5.5% by the end of last year, ranking it as the fourteenth-highest yielder in the [S&P 500](#), the highest among S&P 500 Information Technology companies, and the second-highest in the Dow after Verizon.

But that high dividend yield also showed signs of trouble.

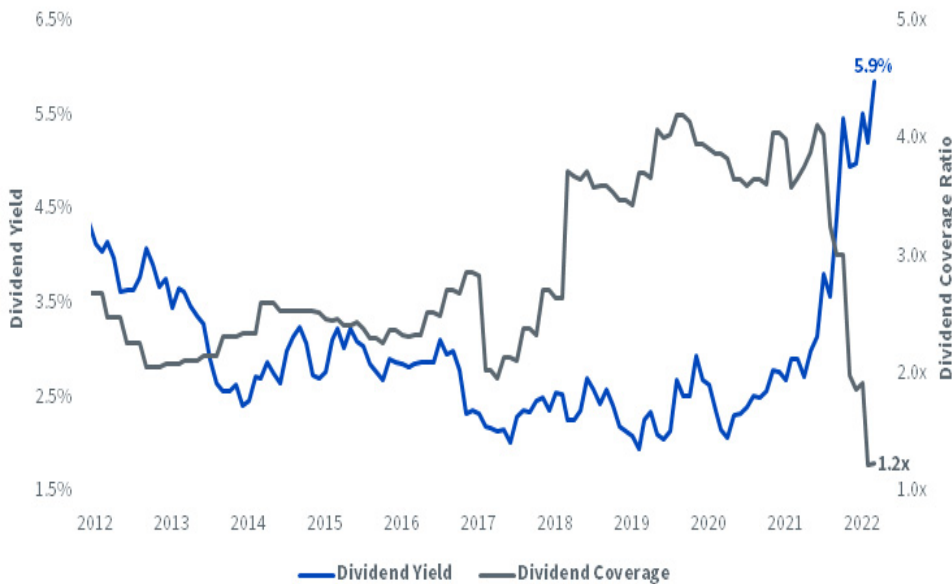
The dividend yield skyrocketed not because of a massive increase in dividends per share—see the small yet steady annual increases in the previous chart—but because of its plummeting stock price and concerns over the reliability of the dividend.

Intel’s dividend yield was just under 2% in January 2020. This year, the dividend yield had reached as high as 5.9%. Following the dividend cut, the dividend yield is back below 2%.

If the surging dividend yield was the preliminary red flag on dividend safety, the rapid

drop in the [dividend coverage ratio](#)—earnings per share divided by dividends per share—from over four times to nearly one times provided another.

Intel Trailing 12-Month Dividend Yield and Dividend Coverage Ratio



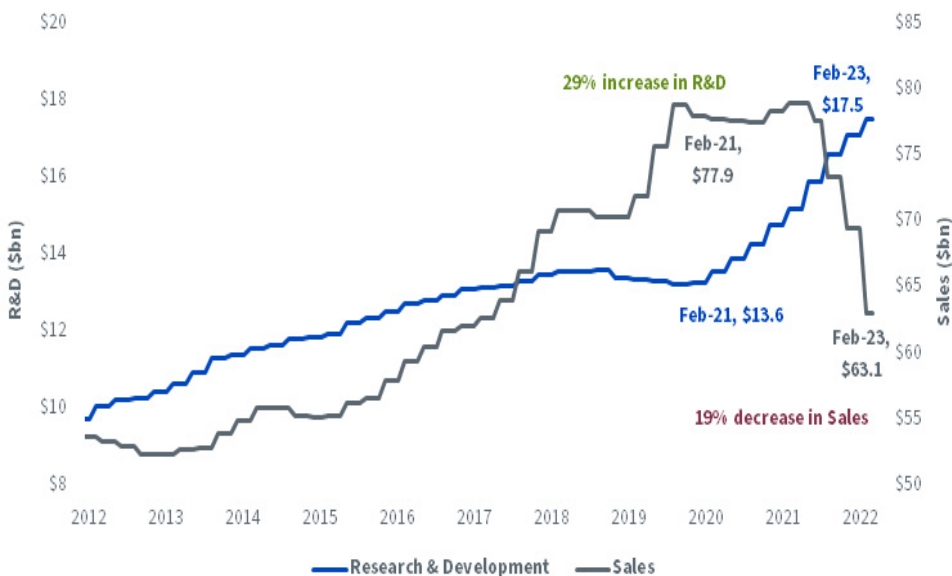
Sources: WisdomTree, FactSet, 12/31/12-2/28/23.

It is rare for an S&P 500 company to cut a dividend, particularly for a payer as large as Intel. The last major S&P 500 dividend cut was [last year's roughly 50% cut from AT&T](#).

A strong ramp up in research and development (R&D) spending with a sudden slowdown in sales caused Intel to trip up on fulfilling its dividend obligations.

Over the last two years, sales decreased 19%, while R&D jumped nearly 30%.

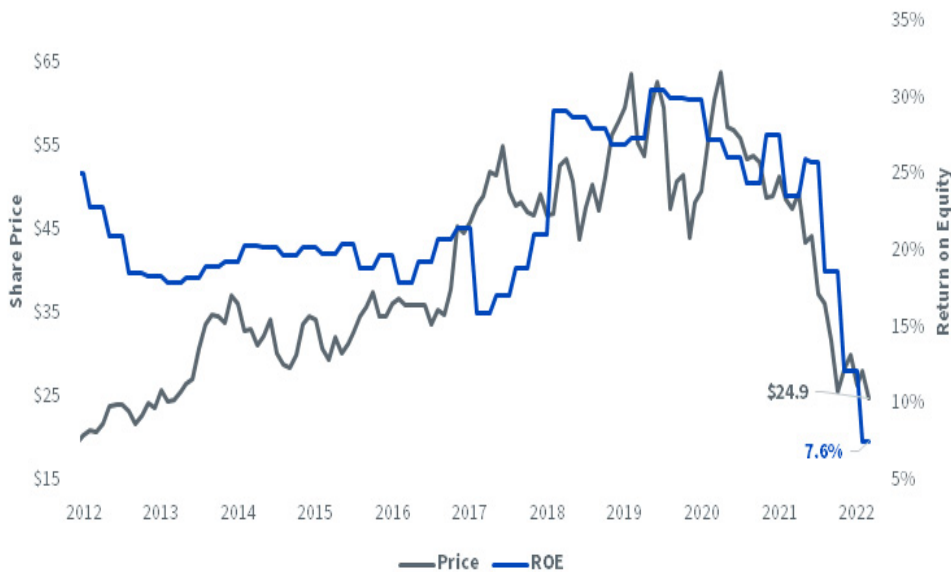
Intel Trailing 12-Month R&D and Sales



Sources: WisdomTree, FactSet, 12/31/12-2/28/23.

The bottom line impact to the company has been a share price that is down 60% from its 2021 high and a [return on equity \(ROE\)](#) that has nose-dived from over 30% just two years ago to less than 10% today.

Intel Share Price and Trailing 12-Month ROE



Sources: WisdomTree, FactSet, 12/31/12-2/28/23.

WisdomTree Composite Risk Screening

Are there ways to capture dividend cuts like this one? The CEO was adamant the company would maintain the dividend just four weeks before cutting it.

WisdomTree added a [composite risk screen \(CRS\)](#) to its methodology of dividend indexes to mitigate exposure to a company like Intel.

Our purely quantitative model identified the riskiness of Intel's dividend and flagged the security out of the investible universe at the December reconstitution of the U.S. dividend strategy.

As a recap of the process, we aim to mitigate exposure to the riskiest dividend payers in two ways:

- Screening out companies that rank in the bottom decile of our starting universe of publicly traded companies based on a CRS of [quality](#) and [momentum](#) factors
- Screening out companies that rank in the top 5% by [dividend yield](#) and also in the bottom 50% based on the CRS

All stocks (dividend payers or not) are ranked on this CRS across six distinct universes: three regions (U.S., developed international and emerging markets) separated between [large-/mid-cap](#) and [small-caps](#). This allows for comparing stocks with more 'like-for-like' peers.

The dividend yield rankings are similarly constructed within these six distinct universes. As we show in the charts below, companies in the bottom decile on CRS are removed, as well as the companies in the bottom half of the CRS that are also in the top 5% of the respective universe according to yield.

WisdomTree Composite Risk Screen



As of the latest Index refresh,² Intel’s dividend yield of 5.1% would have qualified for the high dividend subsets that rank by yield. But because Intel scored in the tenth (worst) decile of the composite risk screen it was ineligible for WisdomTree’s dividend indexes.

The [WisdomTree U.S. High Dividend Fund \(DHS\)](#), which tracks the [WisdomTree U.S. High Dividend Index](#), holds nearly 400 companies with the highest dividend yields. At the [December 2022 rebalance](#), 25 companies—the [high-risk dividend exclusions](#)—were screened out of the universe, based on the composite risk screen.

Though the high-risk dividend exclusions sport an attractive 8% yield, the basket has a dividend coverage ratio well below one times—meaning dividend payouts are in excess of earnings.

[DHS](#), on the other hand, has a dividend coverage ratio of two times—earnings are double dividend payouts—with profitability metrics above the [Russell 1000 Value Index](#).

While these high-risk dividend exclusions have a much higher average yield, the [P/E ratios](#) are higher than the Russell 1000 value and the profitability levels far worse.

The Value Rotation

Our team believes a multi-year [value](#) cycle began in 2022. As risk of an economic slowdown and ultimate [recession](#) rises with each further interest [rate hike](#) from the [Fed](#), the sustainability and health of dividends will become just as important as the level of dividend yield. Companies thrived with the economy humming, but we believe our composite risk screen will be an increasingly valuable component of our process in an inevitable economic slowdown.

Fundamentals Comparison

For definitions of terms in the table above please visit the [glossary](#).



Standardized performance and performance data for the most recent month-end is available on the [WisdomTree U.S. High Dividend Fund \(DHS\) webpage](#).

This information must be preceded or accompanied by a prospectus, click [here](#) to view or download prospectus.

¹ Brian Sozzi, “Intel CEO: ‘We are committed to the dividend,’” Yahoo! News, 1/27/23.

² 11/30/22, the screening date of the WisdomTree domestic dividend indexes

Important Risks Related to this Article

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For the top 10 holdings of DHS please visit the Fund's fund detail page at <https://www.wisdomtree.com/investments/etfs/equity/dhs>

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.

Related Funds

+ [WisdomTree U.S. High Dividend Fund](#)

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

IMPORTANT INFORMATION

U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

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DEFINITIONS

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

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.

Dividend coverage ratio: Earnings per share divided by dividends per share. Higher numbers indicate a firm has a greater amount of earnings per share relative to its dividend payments.

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

Composite risk score: A term that refers to combining multiple factors—for example quality and momentum—to quantify the potential riskiness of a security relative to comparable companies.

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.

Momentum: Characterized by assets with recent price increase trends over time. This term is also associated with the Momentum Factor which associates these stock characteristics with excess return vs the market over time.

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

Large-Capitalization (Large-Cap): A term used by the investment community to refer to companies with a market capitalization value of more than \$10 billion. Large cap is an abbreviation of the term "large market capitalization". Market capitalization is calculated by multiplying the number of a company's shares outstanding by its stock price per share.

Mid-Cap: Characterized by exposure to the next 20% of market capitalization (after the top 70% have been removed) within the Value, Blend or Growth style zones with the majority of the fund's weight.

Small caps: new or relatively young companies that typically have a market capitalization between \$200 million to \$2 billion.

High-risk: A high-risk investment is one for which there is either a large percentage chance of loss of capital or under-performance—or a relatively high chance of a devastating loss.

Dividend exclusion: Dividend exclusion refers to an Internal Revenue Service (IRS) provision that allows corporations to subtract a portion of dividends received when they calculate their taxable income.

Russell 1000 Value Index: A measure of the large-cap value segment of the U.S. equity universe, selecting from the Russell 1000 Index.

Price-to-earnings (P/E) ratio: Share price divided by earnings per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested.

Value: Characterized by lower price levels relative to fundamentals, such as earnings or dividends. Prices are lower because investors are less certain of the performance of these fundamentals in the future. This term is also related to the Value Factor, which associates these stock characteristics with excess returns vs the market over time.

Recession: two consecutive quarters of negative GDP growth, characterized generally by a slowing economy and higher unemployment.

Rate Hike: refers to an increase in the policy rate set by a central bank. In the U.S., this generally refers to the Federal Funds Target Rate.

Federal Reserve: The Federal Reserve System is the central banking system of the United States.