WELLS FARGO JUST RAISED ITS DIVIDEND 14%. DOES YOUR DIVIDEND ETF OWN IT?

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One comforting sign of our recovery from the global financial crisis of 2008–09 is that financial companies are receiving approval from the U.S. government to return greater amounts of their earnings back to their shareholders in the form of both dividends and stock buybacks. Wells Fargo became the latest example of this trend when it recently announced that its March 1, 2013, payment will be 25 cents per share (a quarterly payment, indicating $1.00 per year).[1] The implications of this dividend trend are important for understanding the nuances of various dividend index stock selection methodologies. J.P. Morgan and Wells Fargo were the early birds in restoring more “normalized” dividend payouts in 2011—essentially getting closer to where they had been prior to the financial crisis. J.P. Morgan was forced to slash its dividend to only 5 cents per share a quarter from its April 30, 2009, payment until its April 30, 2011, payment, when the firm raised its quarterly dividend to 25 cents per share.[2] Similarly, Wells Fargo cut its dividend to 5 cents per share quarterly from its June 1, 2009, payment until its June 1, 2011, payment, when it raised it to 12 cents per share.[3] With these initial dividend raises coming out of the financial crisis, J.P. Morgan was the 15th-largest dividend payer in the United States as of WisdomTree’s November 30, 2011, Index screening. Wells Fargo was the second-highest-ranking financial firm, ranked 22nd, meaning that J.P. Morgan was the only firm in the financial sector to crack the top 20 dividend payers in the U.S. as of November 30, 2011.[4] To have only one financial firm among the 20 largest dividend payers is a far cry from 2007, when six financial companies were among the top 20. At that time, financials paid approximately $96 billion in total dividends, which represented nearly one-third of all dividends paid in the United States.[5] At the bottom of the crisis in 2009, the indicated dividend stream from financials had collapsed nearly $70 billion, to only $29 billion.[6] Yet more and more financial firms are now starting to increase their dividends. Wells Fargo had a notably large increase in 2012—from its March dividend payment of 12 cents per share to the June payment of 22 cents a share. While still needing significant growth to reach previous highs, financial sector dividends have grown from that annual low of $29 billion to $55 billion in 2012, or almost 17% of all indicated dividends in the U.S.[7] Even though this figure is still almost 43% below its previous peak, Financials is still the sector paying the greatest amount of regular indicated dividends in the United States.[8] **What are the implications for various dividend indexes?** There are a number of popular dividend growth indexes (and ETFs, which are designed to track their performance after costs, fees and expenses) with very strict requirements for the history of consecutive years companies must raise their dividends to be eligible for potential inclusion as constituents. For instance: • Mergent Dividend Achievers Select Index has a requirement that a firm must raise its dividend consecutively for 10 years to be eligible for inclusion. • S&P High Yield Dividend Aristocrats Index requires 20 consecutive years of dividend increases in order for constituents to gain eligibility. As a result of these

stringent requirements, it will be a long time before these indexes will own many of the financial firms that cut their dividends during the global financial crisis. At WisdomTree, we created a family of broadly inclusive Indexes of dividend payers that do not screen out dividend initiators (such as, for example, Apple, which initiated a dividend during the 2012 calendar year) or companies that are returning to paying dividends after temporary cuts or suspensions (as was the case for J.P. Morgan, Wells Fargo and other large U.S. financials). We believe being broadly inclusive of the dividend-paying opportunity set can potentially lead to a better capture of the market's dividend growth. Wells Fargo is the latest company to illustrate this point—neither the Mergent Dividend Achievers Select Index nor the S&P High Yield Dividend Aristocrats Index can include Wells Fargo until 2022 at the very earliest, provided the company meets the relevant screening criteria at that time. With the financial sector recovering, we may expect to see financials be one of the leading contributors to dividend growth of the market—and backwards-looking dividend growth screens may counterintuitively hamper the respective indexes' ability to capture that growth. **The following WisdomTree ETFs hold the companies discussed in this article:** The WisdomTree Total Dividend Fund – DTD (click here for current holdings) The WisdomTree LargeCap Dividend Fund – DLN (click here for current holdings) [1]Source: Bloomberg. [2]Source: Bloomberg. [3]Source: Bloomberg. [4]Source: Bloomberg. [5]Data refers specifically to firms in the WisdomTree Dividend Index as of 11/30/2007. [6]Based on the 11/30/2009 screening date of the WisdomTree Dividend Index. [7]Based on the annual screening date of the WisdomTree Dividend Index (11/30/2012). [8]Source: Bloomberg, as of the 11/30/2012 Index screening date. Universe is the WisdomTree Dividend Index.

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