

WHY THIS YEAR'S REGULAR DIVIDEND RECORD IS SPECIAL. AND THE HYPE OVER SPECIAL DIVIDENDS IS NOT.

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12/20/2012

Lately, there has been a lot of noise around special, one-time dividend announcements being made to avoid anticipated higher dividend tax rates in 2013, with many executives trying to lock in distributions at the currently preferential tax rate on [qualified dividends](#) of 15%. Last I counted, there were over 100 companies that had announced [special dividends](#) in 2012, with distributions totaling just over \$25 billion and the largest distribution, \$3 billion, being made by Costco¹. Those harping on the one-time are missing what I believe is the bigger dividend story of 2012—that [regular cash dividends](#) in 2012 exhibited their third consecutive year of double-digit growth, to reach a new record level of \$329 billion². Regular indicated cash dividends were up nearly \$45 billion year over year—a growth in regularly paid cash dividends nearly two times greater than the amount of special one-time dividends³. Special dividends are, by definition, one-time events. I believe these special dividends speak to the past success of the companies paying them. The payers of these special dividends decided that 2012 is as good a time as any to distribute their accumulated cash to shareholders—and I understand the tax timing motivation. But I do not believe these special dividends reveal any special signal about the future prospects of these companies. By contrast, I believe the commitment to initiate or increase regular, quarterly payments of the constituents in the [WisdomTree Dividend Index](#)—to the tune of approximately \$45 billion this year, a new record level—is much more important. This commitment of higher *regular* dividends illustrates that fundamentals are strong and, now, have passed their previous peak before the financial crisis⁴. Despite the tax uncertainty, the new record regular dividend levels speak to the health of the corporate cash flows and, I believe, serves as an important signal for the future. Furthermore, I believe we will reach another new record dividend stream next year. Why? While there were over 100 companies that paid one-time special dividends,⁵ there were many more companies that initiated or grew their regular payments this year. In total, there were 124 new additions to the U.S. dividend-paying segment⁶, contributing roughly \$17.3 billion of the increased dividends. Notable regular cash dividend initiators included: - Apple, which initiated a nearly \$10 billion indicated cash dividend with its first quarterly payments since discontinuing its regular dividend in 2/13/1996, comprising a 3.03% weight in the WisdomTree Dividend Index as of November 30, 2012. - Dell, which initiated an approximately \$560 million indicated cash dividend—the first in its history—and comprised a .17% weight in the WisdomTree Dividend Index as of November 30, 2012. - Ford Motor company, which initiated an approximately \$750 million indicated cash dividend, its first since 9/15/2006, as its prospects continued to improve after the 2008–09 crisis. This led to a weight of .23% in the WisdomTree Dividend Index as of November 30, 2012. Moreover, some of the largest dividend payers grew their already substantial dividends by very large amounts over the past year (11/30/11–11/30/12, “the period”): - Exxon, which grew its regular indicated dividend stream from \$9.0 billion to \$10.4 billion over the period—an increase of approximately \$1.4 billion, leading to a weight of 3.16% in the WisdomTree Dividend

Index as of November 30, 2012, the largest individual weight in the Index. - Cisco, which raised its regular indicated dividend approximately 133%, or approximately \$1.68 billion, over the period, leading to a weight of .90% in the wisdomTree Dividend Index as of November 30, 2012. - Microsoft. The firm that paid one of the largest special dividends ever by a U.S. company—approximately \$30 billion in December of 2004⁷—increased its regular indicated cash dividend by over \$1 billion over the period and now pays close to \$8.0 billion annually, leading to a weight of 2.35% in the wisdomTree Dividend Index as of November 30, 2012. In conclusion, I do not believe these special dividends deserve any special attention. At wisdomTree, we employ an inclusive approach to our Dividend Index construction: capturing all regular dividend payers and assigning the most weight to the companies who pay the most in regular indicated cash dividends each year. For more insight on how regular dividends have changed this year, [see my previous blog](#) on our annual Dividend Index rebalance, which occurs this month. *For the most recent holdings information of the wisdomTree Total Dividend Fund (DTD), that is designed to track the wisdomtree Dividend Index, please [click here](#).* ¹Based on the constituents of the wisdomTree Dividend Index. Source: Bloomberg. ²Source: Bloomberg, as of 11/30/2012 Index Screening. ³Source: Bloomberg, as of 11/30/2012 Index Screening. ⁴Refers to the prior peak of the dividend stream of the wisdomTree Dividend Index, as of 11/30/2007. ⁵Based on the constituents of the wisdomTree Dividend Index. ⁶There were 124 additions to the wisdomTree Dividend Index as a result of the 11/30/2012 Index screening. ⁷La Monica, Paul R., “Microsoft’s \$75 Billion Cash Reward.” Money.CNN.com, July 21, 2004.

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