

# U.S. QUALITY DIVIDEND GROWTH: AN ALTERNATIVE TO THE S&P 500

Jeff Weniger – Head of Equity Strategy  
03/19/2018

We are coming up on five years since we launched the [WisdomTree U.S. Quality Dividend Growth Fund \(DGRW\)](#), our \$2.13 billion ETF<sup>1</sup> that tracks the [WisdomTree U.S. Quality Dividend Growth Index](#). Its benchmark is the [NASDAQ US Dividend Achievers Select Index](#), but figure 1 also includes the [S&P High Yield Dividend Aristocrats](#) and the [S&P 500 Indexes](#).

**Figure 1: WisdomTree U.S. Quality Dividend Growth Index (Hedged Units) Performance**

Bloomberg Ticker	Name	1 Year	3 Years	Since ETF Inception
DGRW	WisdomTree U.S. Quality Dividend Growth Fund	26.95%	12.44%	13.98%
WTDGI	WisdomTree U.S. Quality Dividend Growth Index	27.43%	12.80%	14.31%
DVG	NASDAQ US Dividend Achievers Select Index	22.43%	10.39%	11.01%
SPHYDA	S&P High Yield Dividend Aristocrats Index	16.32%	11.83%	12.67%
SPX	S&P 500 Index	21.82%	11.41%	13.29%

Sources: Bloomberg, WisdomTree. ETF inception is 5/22/13. ETF returns measured by NAV. Data through 12/29/17.

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](http://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.

Click [here](#) for DGRW standardized performance.

## The Fundamentals Quilt

Figure 2 shows a “periodic table” or “quilt” for the fundamentals of the WisdomTree U.S. Quality Dividend Growth Index, along with the other Indexes.

The top of the table is most desirable, and each appearance there gets 3 “points,” with lower points below. The far-right column sums the points. For example, the S&P High Yield Dividend Aristocrats Index's 2.60% [dividend yield](#) is the highest of the four Indexes, so it gets 3 points for that column. The Index's sum of 10 points for all columns is shown on the right.

Strikingly, the S&P 500 often appears in the very last row. It gets just 7 points. The WisdomTree Index gets 13.

Figure 2: U.S. Equity Fundamentals “Quilt”

Row Point Value	Dividend Yield	P/E Ratio (fwd)	Price/Book	Price/Sales	Return on Equity (ROE)	Return on Assets (ROA)	2018 Earnings Growth Est.	Total Points*
3 Most Desirable	S&P High Yield Div. Aristocrats (2.66%)	WisdomTree U.S. Quality Dividend Growth Index (18.9)	S&P High Yield Div. Aristocrats (3.14)	NASDAQ Dividend Achievers Select (1.61)	WisdomTree U.S. Quality Dividend Growth Index (21.3%)	NASDAQ Dividend Achievers Select (5.3%)	S&P 500 (12.5%)	WisdomTree U.S. Quality Dividend Growth Index (13)
2	WisdomTree U.S. Quality Dividend Growth Index (2.19%)	S&P 500 (20.0)	S&P 500 (3.30)	S&P High Yield Div. Aristocrats (1.67)	NASDAQ Dividend Achievers Select (18.8%)	WisdomTree U.S. Quality Dividend Growth Index (4.9%)	NASDAQ Dividend Achievers Select (8.0%)	NASDAQ Dividend Achievers Select (12)
1	NASDAQ Dividend Achievers Select (1.94%)	NASDAQ Dividend Achievers Select (21.5)	WisdomTree U.S. Quality Dividend Growth Index (4.30)	WisdomTree U.S. Quality Dividend Growth Index (1.99)	S&P High Yield Div. Aristocrats (14.0%)	S&P High Yield Div. Aristocrats (4.0%)	WisdomTree U.S. Quality Dividend Growth Index (6.7%)	S&P High Yield Div. Aristocrats (10)
0 Least Desirable	S&P 500 (1.89%)	S&P High Yield Div. Aristocrats (21.8)	NASDAQ Dividend Achievers Select (4.37)	S&P 500 (2.24)	S&P 500 (13.8%)	S&P 500 (2.8%)	S&P High Yield Div. Aristocrats (4.5%)	S&P 500 (7)

Sources: Bloomberg, WisdomTree. Data as of 12/29/17. Past performance is not indicative of future results. You cannot invest directly in an Index. \*0 to 3 points for each column, depending on rank. Total points are the sum of the other 7 columns.

**Smart “Beta” or Modern “Alpha”?**

A metric in figure 2 jumps out for investors who focus on profitability for shareholder wealth creation—and that’s the WisdomTree Index’s 21.3% return on equity, about 8 percentage points more than the S&P 500. Both the WisdomTree Index and the S&P 500 pay out a bit more than 40% of their earnings in [dividends](#), retaining the rest. Investors have a choice with respect to the nearly 60% of earnings retained: own a collection of firms that redeploy capital at middling [ROEs](#) or own a different group at high ROEs.

That’s how we designed the Index; the strategy is to improve upon the S&P’s profitability metrics, not mirror them. What we’re doing isn’t smart beta; it’s something else, a rules-based alpha generator. It’s *modern alpha*.

Investors can choose from two paths in 2018: they can dive in with money managers who are indexing or closet-indexing the S&P 500. If their portfolio mimics the S&P, they will have stocks that pay a 1.89% dividend, trade for 20 times [forward earnings](#) and have an ROE of 13.8%. Or they can take the other path, which displays ROEs that are significantly higher than those of the S&P, with a lower [P/E](#) (18.9) and a higher dividend yield (2.19%).

DGRW can fill an asset allocation’s U.S. equity sleeve because the nature of the screen—300 companies weighted by their dividend amounts—identifies mainstream top holdings like Exxon Mobil, Johnson & Johnson and Wells Fargo. It’s a broad allocation that is designed for major pieces of portfolios.

We designed our Index this way because we don’t want investors treating DGRW as a fund that can “satellite around”<sup>2</sup> [active managers](#) or the S&P 500. We are pulling the curtain back on the S&P 500 and funds that track it because modern alpha concepts such as the ones used in this ETF can take over the core of a portfolio.

<sup>1</sup>Source: Bloomberg, as of 3/7/2018.

<sup>2</sup>A reference to a “core-satellite” strategy, where a main fund or ETF represents the bulk of the allocation, while other smaller holdings act as satellites around it, much as the massive sun dominates the solar system while the tiny planets satellite around it.

**Important Risks Related to this Article**

There are risks associated with investing, including possible loss of principal. Funds focusing their investments on certain sectors increase their vulnerability to any single economic or regulatory development. This may result in greater share price volatility. Please read the Fund’s prospectus for specific details regarding the Fund’s risk profile.

References to specific securities and their issuers are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations to purchase or sell such securities.

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

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](#).

**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.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an “as is” basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the “MSCI Parties”) expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages ([www.msci.com](http://www.msci.com))

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only. You cannot invest directly in an index.

## DEFINITIONS

**S&P High Yield Dividend Aristocrats Index**: Designed to track the performance of dividend-paying companies in the U.S. that have increased their annual dividend payments for the last 20 or more consecutive years.

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

**Smart Beta**: A term for rules-based investment strategies that don't use conventional market-cap weightings.

**Modern Alpha**: Modern Alpha® combines the outperformance potential of active with the benefits of passive—to offer investor strategies that are built for performance.

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

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

**Forward P/E ratio**: Share price divided by compilation of analyst estimates for earnings-per-share over the coming 12-month period. These are estimates that may be subject to revision or prove to be incorrect over time.

**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.

**Active manager**: Portfolio managers who run funds that attempt to outperform the market by selecting those securities they believe to be the best.