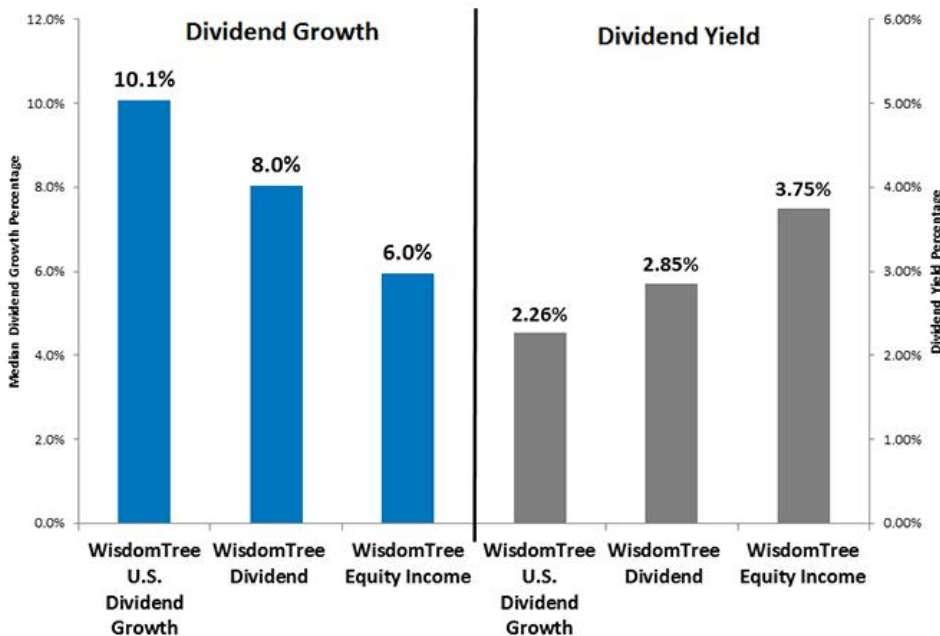


# IS YOUR INDEX CAPTURING DIVIDEND GROWTH?

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As [interest rates](#) have fallen, higher-[yielding](#) equities have become an attractive source of income when compared with [bonds](#). Bonds, by definition, primarily offer a fixed income stream—they are vehicles that provide fixed income payments—while equities offer not only current income but also future growth potential. Assuming that interest rates could increase, [dividend growth](#) prospects are becoming a more important theme for investors who want to focus on equities for their income potential. For investors who are looking for dividend growth potential, WisdomTree created a new series of Indexes in 2013. These Indexes emphasize stocks that we believe have the best prospects for raising their [dividends](#), based on growth and quality factors. As of our latest Index [rebalance](#), the data shows that these stocks displayed above-average dividend growth over the last year, compared with our higher-yielding dividend Indexes. The chart below looks at the median [Dividend Stream](#)<sup>®</sup> growth of constituents and the dividend yields of various WisdomTree Indexes as of the most recent annual rebalance [screening date](#). The chart highlights three Indexes with different focuses: • **Dividend Growth Focus**—The [WisdomTree U.S. Dividend Growth Index](#) selects stocks based on a combination of growth and quality characteristics. • **Broad Focus**—The [WisdomTree Dividend Index](#) focuses on providing a core exposure to dividend-paying stocks. • **Focus on High Yields**—The [WisdomTree Equity Income Index](#) focuses on selecting high-dividend-yielding securities. **Dividend Growth and Yield Comparison**



Sources: WisdomTree, Bloomberg  
Dividend growth percentage above is the median *Dividend Stream* growth of Index constituents as of the 11/30/14 screening, from 11/30/13 to 11/30/14. Dividend yields are based on the 11/30/14 index screening. Past performance is not indicative of future results. You cannot invest directly in an index.

For definitions of

terms and indexes in the charts, visit our [glossary](#).

- **Dividend Growth Index Recorded Higher Growth Than Broad Index**—The [WisdomTree U.S. Dividend Growth Index \(WTDGI\)](#) saw more than 2% higher *Dividend Stream* growth over the period than the broader WisdomTree Dividend Index.
- **Dividend Growth Index Saw Higher Growth Than Yield-Focused Index**—WTDGI displayed a 4 percentage point advantage over the [WisdomTree Equity Income Index \(WTHYE\)](#) in dividend growth. Although WTHYE's median dividend growth lagged over the period, it is important to remember that WTHYE screens for securities with higher dividend yields instead of focusing on future growth potential, so the Index will typically have a higher dividend yield than WTDGI.
- **Dividend Yield Differentials Are Narrower**—Compared with the dividend growth differentials. The yield difference between WTDGI and WTHYE is less than 1.5%, but the dividend growth difference was over 4.0%. This is important to note because, if this difference holds up going forward, it could signal that dividend growers could be a more attractive option than higher yielders. Considering that total returns, assuming valuations remain constant, are essentially the starting dividend yield plus the growth of dividends, it makes sense to maximize the sum of these two numbers.

**Conclusion** There is no question that investors have been drawn to the idea of dividend growth—potentially even more than in the past—due to a potential rise in interest rates. While there is no way to know with certainty what will happen in the future, I believe that our dividend growth methodology shows that it can help identify stocks with above-average prospects for dividend growth—as it did at the last rebalance. I believe that this dividend growth potential will become even more important if we see a rise in interest rates in the future.

**Important Risks Related to this Article**

Dividends are not guaranteed, and a company's future ability to pay dividends may be limited. A company currently paying dividends may cease paying dividends at any time.

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## DEFINITIONS

**Interest rates**: The rate at which interest is paid by a borrower for the use of money.

**Yield**: The income return on an investment. Refers to the interest or dividends received from a security that is typically expressed annually as a percentage of the market or face value.

**Bond yield**: Refers to the interest received from a bond and is usually expressed annually as a percentage based on its current market value.

**Dividend growth**: The growth in trailing 12-month dividends for the specified universe.

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

**Rebalance**: An index is created by applying a certain set of selection and weighting rules at a certain frequency. WisdomTree rebalances, or re-applies its rules based selection and weighting process on an annual basis.

**Annual screening date**: The screening date refers to the date upon which characteristics of eligible constituent firms are measured, whereas the rebalance refers to when the results from the screening date are implemented by way of Index weights and constituents.

**WisdomTree U.S. Dividend Growth Index**: A fundamentally weighted index designed to track the performance of dividend-paying companies in the U.S. that WisdomTree believes have the potential to increase their dividends due to certain factors, which include estimated earnings growth, return on equity and return on assets. Weighting is by indicated cash dividends.

**WisdomTree Dividend Index**: Measures the performance of dividend-paying companies incorporated in the United States that pay regular cash dividends and meet WisdomTree's eligibility requirements. Weighted by indicated cash dividends.

**WisdomTree Equity Income Index**: Measures the performance of the 30% highest-yielding dividend-paying equities within the WisdomTree Dividend Index, weighted by indicated cash dividends.