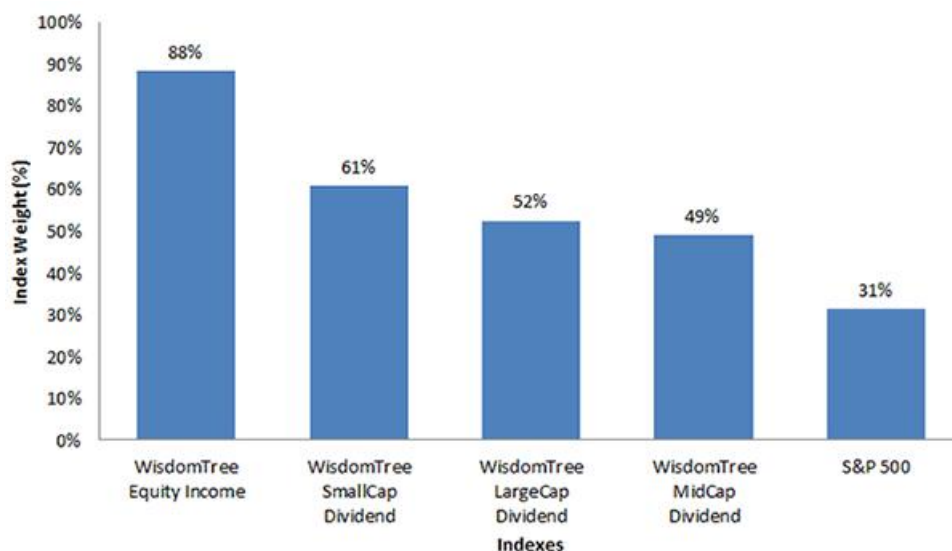


DIVIDEND PAYING EQUITIES GAIN AN ADVANTAGE

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04/28/2014

During the second half of last year, longer-term interest rates in the U.S. rose considerably—mostly driven by the expectation that the Federal Reserve (Fed) would begin [tapering](#) its [quantitative easing \(QE\)](#) program. As a result, the yield advantage dividend-paying equities had offered over the past few years started to close, which caused a rotation out of the higher-yielding sectors of the [dividend](#) market. Surprisingly, even though the Fed has continued to scale back purchases of both mortgage-backed securities and U.S. Treasury bonds, interest rates have actually fallen year-to-date.¹ More recently, the yield advantage dividend-paying equities offer has improved and the percentage of equities with a higher dividend yield than the [10-Year U.S. Treasury](#) has increased. As a result, we have started to see a rotation back into dividend-paying equities. **The Impact of Fundamental Weighting** There is still a healthy part of the broader market that can offer higher yields than U.S. Treasuries, but since this part no longer represents the majority of stocks in the market, it would be hard to notice by looking only at large-cap indexes weighted by [market capitalization](#). At WisdomTree we weight eligible companies in our Indexes by their [Dividend Stream®](#), which enables us to magnify the effect of dividends. The figure below shows the weight of each index in stocks with higher dividend yields than the 10-Year Treasury. **Percentage of an Index with a Dividend Yield Above the 10-Year**



Treasury Yield

Sources: WisdomTree, Bloomberg, as of 4/11/14. The 10-Year Treasury yield was 2.62%. Subject to change.

FOR

definitions of indexes in the chart, please visit our [Glossary](#). • **Rates Have Fallen Year-to-Date** – Through April 11, 2014, the 10-Year Treasury yield has decreased from 3.03% to 2.62%—a change of 41 [basis points](#). To put this in context, rates still remain well below their monthly average of around 6.0% over the last 30 years. But as interest rates decrease, they provide less competition for dividend-paying equities, especially higher-yielding equities. • **Higher-Yielding Equities Offer an Advantage** – The

[WisdomTree Equity Income Index](#), which selects securities for inclusion based on dividend yield, has close to 90% of its weight in securities with a yield advantage over Treasuries. These higher-yielding securities, which underperformed last year as rates rose, have started to show relative strength against the broad market as rates have pulled back year-to-date. • **Small Caps for Income** – when investors think of dividends, they tend to think of mature large-cap companies as their primary source. As a result, we feel that many investors mistakenly overlook small-cap equities as attractive income options. I find it impressive that the [WisdomTree SmallCap Dividend Index \(WTSDI\)](#) has almost twice the weight of the [S&P 500](#) in stocks with a dividend yield higher than the 10-Year Treasury—over 60%. The **Dividend Advantage Bonds**, of course, offer just a fixed income stream, but dividend-paying equities can offer the potential for income growth through dividend increases. We continue to see broad-based dividend growth among the constituents of the [WisdomTree Dividend Index](#) discussed in detail [here](#). Further, S&P Dow Jones Indices recently announced that a record number of U.S. companies reported dividend increases during the first quarter of 2014. Howard Silverblatt, senior index analyst for the company, stated, “Increases outnumbered decreases more than 10-to-1, as \$17.8 billion in net increases were declared by U.S. domestic issues. Payments for the first quarter are estimated to have increased 15% over the first quarter of last year. Payout rates, which historically average 52%, continue to remain near their low at 36%.”²

Conclusion As equity markets and [interest rates](#) forged higher last year, investors repositioned out of defensive higher-yielding equities and into higher [beta](#) stocks to try to capture the upside return potential. With interest rates falling year-to-date and the broad equity markets mostly sideways, investors have become more constructive on the importance of dividend income. At WisdomTree, we have always considered dividends an important component of total return, and feel diversified portfolios can typically benefit from dividend-paying equities across many different market environments. For individuals who are bullish on the equity markets, we would highlight our preference for equities with higher dividend growth characteristics over equities with higher yields, and also look past large caps into the small- and mid-capitalization dividend-paying markets. For those more cautious on the equity market, we would focus their attention on higher-yielding defensive equities. ¹12/31/13–4/11/14. ²“First Quarter 2014 Sees Record Number of Dividend Increases,” S&P Dow Jones Indices, 4/9/14.

Important Risks Related to this Article

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DEFINITIONS

Tapering: A shift in monetary policy by which the Federal Reserve would begin decreasing the amount of bonds it purchases.

Quantitative Easing (QE): A government monetary policy occasionally used to increase the money supply by buying government securities or other securities from the market. Quantitative easing increases the money supply by flooding financial institutions with capital, in an effort to promote increased lending and liquidity.

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

U.S. 10 Year Treasury Note: A debt obligation issued by the United States government that matures in 10 years.

Market Capitalization: Market cap = share prices x number of shares outstanding. Firms with the highest values receive the highest weights in approaches designed to weight firms by market cap.

Dividend Stream: Refers to the regular dividends per share multiplied by the number of shares outstanding.

Basis point: 1/100th of 1 percent.

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.

WisdomTree SmallCap Dividend Index: A fundamentally weighted index measuring the performance of the small-capitalization segment of the U.S. dividend-paying market. The Index comprises the companies that constitute the bottom 25% of the market capitalization of the WisdomTree Dividend Index after the 300 largest companies have been removed. The Index is dividend weighted annually to reflect the proportionate share of the aggregate cash dividends each component company is projected to pay in the coming year, based on the most recently declared dividend per share.

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.

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.

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

Beta: A measure of the volatility of a security or a portfolio in comparison to a benchmark. In general, a beta less than 1 indicates that the investment is less volatile than the benchmark, while a beta more than 1 indicates that the investment is more volatile than the benchmark.