
THE UNIQUE ADVANTAGES OF DIVIDENDS

Christopher Gannatti – Global Head of Research, WisdomTree.
10 Sep 2018

This blog is the second instalment of our new educational blog series on investment strategies and asset classes. You can access the first one [here](#). Today we address the case for dividend weighting.

Did you know that most indices—and the ETFs based on them—are market capitalization weighted (share price x number of shares outstanding)? This weighting method assumes that price is always the best measure of a stock's underlying value. Consequently, the more expensive a stock is, the more weight it gets in the index (and vice versa). However, history—and likely your own experience—has demonstrated that prices can and do deviate from underlying value for many reasons.

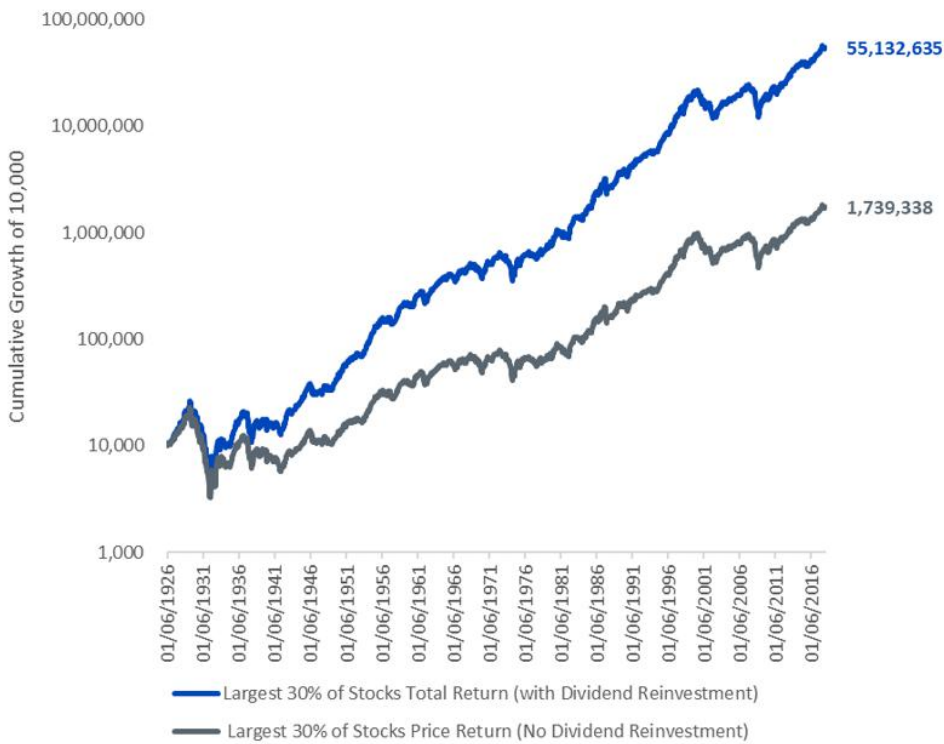
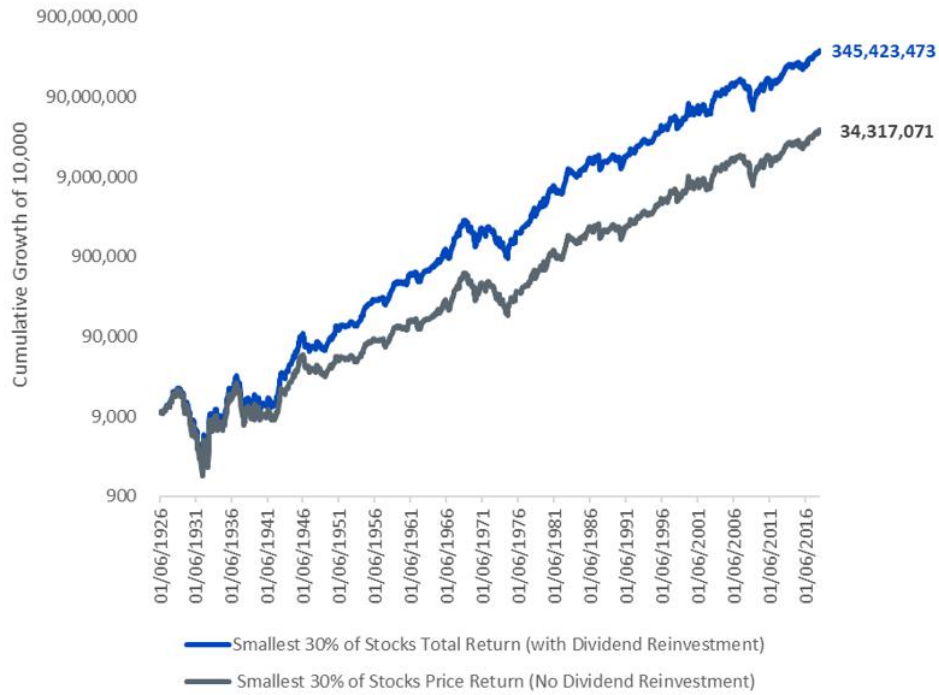
That is why at WisdomTree we choose to weight our indices by fundamentals. We believe that fundamentals, like dividends, can offer a more objective measure of a company's health, value and profitability than stock price alone. Consider that dividends have theoretical and empirical importance in determining a stock's value. Additionally, they:

- Cannot be manipulated by accounting schemes
- Provide a stream of income with the potential to grow
- May reduce volatility and offer protection during down markets—and more

The dividends of dividends

Consider that investors historically purchased stocks as much for their ability to provide income as for their potential to grow capital. Whether investing in large cap equities or small cap equities, dividend reinvestment was a powerful force on the capability to compound the growth of returns.

Figure 1a and 1b: The power of compounding returns: dividend reinvestment in large & small cap



Sources: Kenneth R. French Data Library, 30 June 1926 to 30 June 2018. Data takes the largest and smallest 30% of listed stocks in US markets based on market capitalization size. These are not calculated indices.

Historical performance is not an indication of future performance and any investments may go down in value.

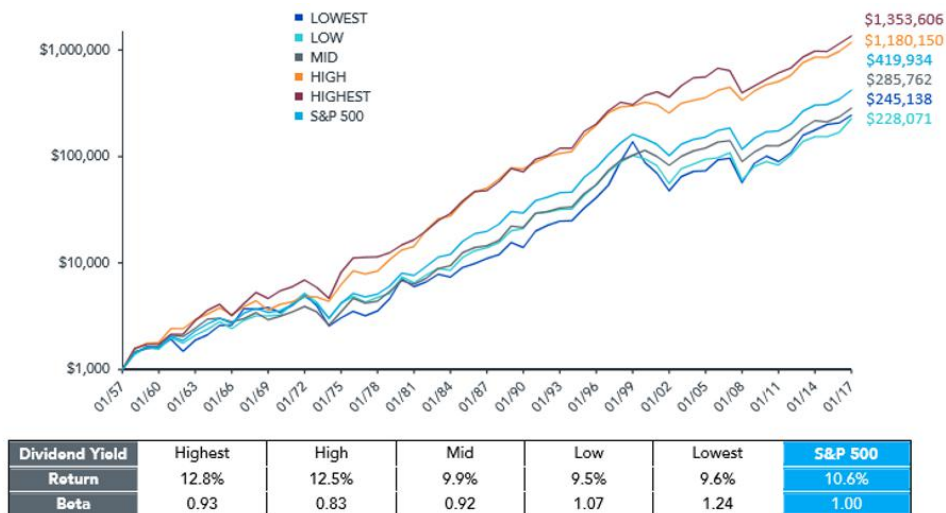
The power of valuation control & rebalancing

It is worth noting that all dividends are not created equally. Wharton Professor and WisdomTree Senior Investment Advisor Jeremy Siegel has demonstrated that over time,

stocks with higher dividends tend to outperform those with low and no dividends. In the chart below, the S&P 500 was divided into five groups, or quintiles, each representing 20% of the dividend payers within the index. The quintiles are then ranked from those paying the highest dividends to those paying the lowest. This is done on an annual basis.

As you can see, the quintiles paying the high and highest dividends historically outperformed the S&P 500 as well as the low and lowest dividend payers by a range of 280%-680%, respectively, with lower volatility.

Figure 2: Dividend yield and relative performance: Quintile Charts from Jeremy Siegel's Research



Source: Siegel, Future for Investors. 2005, with updates to 2017. Period 12/31/1957-12/31/2017.

Historical performance is not an indication of future performance and any investments may go down in value.

Weighting by dividend

Weighting by dividend can help to generate more income and potentially magnify the impact dividends have on performance. In the hypothetical example below, the dividend-weighted portfolio is able to generate 30%+ additional income over the cap-weighted portfolio using the same stocks and the same initial investment.

Figure 3: Weighting by dividend

	Weighting by Dividends								
				Market Capitalization-Weighted Strategy			Dividend-Weighted Strategy		
	Market Capitalization	Cash Dividends	Dividend Yield	Weight	Investment	Dividend Generation	Weight	Investment	Dividend Generation
Company A	\$ 100 Billion	\$ 2 Billion	2.00%	46.30%	\$46,296	\$926	20%	\$20,000	\$400
Company B	\$ 50 Billion	\$ 3 Billion	6.00%	23.15%	\$23,149	\$1,389	30%	\$30,000	\$1,800
Company C	\$ 66 Billion	\$ 5 Billion	7.60%	30.56%	\$30,556	\$2,315	50%	\$50,000	\$3,788
Totals						\$4,630			\$5,988

Source: Hypothetical illustration from WisdomTree.

We'll discuss more about the possible advantages of weighting by dividend as this educational blog series continues.

View the online version of this article [here](#).

Important Information

Marketing communications issued in the European Economic Area (“EEA”): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA: This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as “WisdomTree” (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

For professional clients only. The information contained in this document is for your general information only and is neither an offer for sale nor a solicitation of an offer to buy securities or shares. This document should not be used as the basis for any investment decision. Investments may go up or down in value and you may lose some or all of the amount invested. Past performance is not necessarily a guide to future performance. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

The application of regulations and tax laws can often lead to a number of different interpretations. Any views or opinions expressed in this communication represent the views of WisdomTree and should not be construed as regulatory, tax or legal advice. WisdomTree makes no warranty or representation as to the accuracy of any of the views or opinions expressed in this communication. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

This document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares or securities in the United States or any province or territory thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.

Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.