

A CLOSER LOOK

THE NASDAQ US BROAD DIVIDEND ACHIEVERS INDEX AS INSTITUTIONAL BENCHMARK

Many portfolio managers of dividend and income funds would be better served with a “pure-play” dividend index.

Many portfolio managers of dividend and income funds are benchmarked to the Russell 1000 Value Index. While this Index provides some overlap with the investment mandates and opportunity sets among the funds, a deeper analysis of that specific index and the dividend market itself finds that a pure-play dividend index can provide a “better benchmark” in the space.

Figure 1 illustrates the breakdown of the Russell US benchmark family into size (Russell 1000 and Russell 2000) and style (Value, Growth, and Combined) segments. For example, small cap growth is captured by the Russell 2000 Growth Index; large cap value is captured by the Russell 1000 Value Index; and so on. Figure 1 also includes key information on dividend paying stocks.

FIGURE 1

	VALUE INDEX	GROWTH INDEX	COMBINED ²	
RUSSELL 1000	NUMBER OF STOCKS	648	611	1004
	PERCENTAGE OF ALL RUSSELL STOCKS ¹	21.8%	20.5%	33.7%
	NUMBER OF DIVIDEND STOCKS	503	385	698
	PCT OF ALL DIVIDEND PAYERS	33.4%	25.5%	46.3%
RUSSELL 2000	NUMBER OF STOCKS	1350	1123	1973
	PERCENTAGE OF ALL RUSSELL STOCKS	45.3%	37.7%	66.3%
	NUMBER OF DIVIDEND STOCKS	656	342	809
	PERCENTAGE OF ALL DIVIDEND PAYERS	43.5%	22.7%	53.7%

(1) Defined as Russell 1000 stocks and Russell 2000 stocks.

(2) Combined data is less than Value + Growth due to stocks that are common to both indexes.

How well does the Russell 1000 Value Index represent the marketplace of dividend-paying stocks? Its 648 stocks are, by Russell’s definition,

exclusively large cap stocks. Of those, 503 (77.6%) pay dividends giving it an above-market yield of 2.36%. This would reasonably qualify the Index as dividend-tilted.

However, the Index’s 648 stocks are just 21.8% of all stocks in the Russell 3000 and, perhaps more importantly, the Index’s 503 dividend-paying stocks are just 33.4% of all dividend-paying stocks. The remaining 1004 dividend paying stocks, which are distributed across Growth and Small Cap segments, are forever out of reach.

In contrast, Figure 2 shows the breakdown for the NASDAQ US Broad Dividend Achievers Index (ticker: DAA), which is comprised of U.S. securities with at least ten consecutive years of increasing annual regular dividend payments. Its yield is currently 2.40%.

FIGURE 2

	VALUE INDEX	GROWTH INDEX	COMBINED ²	
RUSSELL 1000	NUMBER OF DAA STOCKS	90	90	138
	PCT OF ALL DAA STOCKS	44.8%	44.8%	68.7%
RUSSELL 2000	NUMBER OF DAA STOCKS	46	33	63
	PCT OF ALL DAA STOCKS	22.9%	16.4%	31.3%

The data shows that 90 (44.8%) of DAA’s 201 stocks are defined as large cap value, similar to the exposure offered by the Russell 1000 Value Index, but 90 (44.8%) of DAA’s 201 stocks are also defined as large cap growth. (42 of each of those 90 stocks are common to both large cap segments.)

Further, 46 (22.9%) of DAA’s 201 stocks are defined as small cap value, and 33 (16.4%) of DAA’s 201 stocks are defined as small cap growth. (16 of the 46 and 33 stocks, respectively are common to both small cap segments.)

DAA provides a more diversified representation of the dividend and income market across all size and style segments, positioning it as a “better benchmark” for many portfolio managers in the space.

Source: NASDAQ OMX Global Indexes Research. Bloomberg. FactSet.

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