PUBLICATION DATE: MARCH 26, 2014

A CLOSER LOOK

AN INCREASING NUMBER OF US COMPANIES ARE CHOOSING TO RETURN CAPITAL TO SHAREHOLDERS VIA DIVIDENDS AND SHARE BUYBACKS.

The NASDAQ US Benchmark Index is a float-adjusted, market capitalization-weighted index designed to track the performance of US securities. It contains securities from all major industries and is the base universe for construction of many of NASDAQ OMX's dividend and income themed indexes including the NASDAQ US Broad Dividend Achievers Index (DAA), NASDAQ US Rising Dividend Achievers Index (NQDVRIS) and part of the NASDAQ US Multi-Asset Diversified Income Index (NQMAUS).

A BRIEF HISTORY OF DIVIDENDS

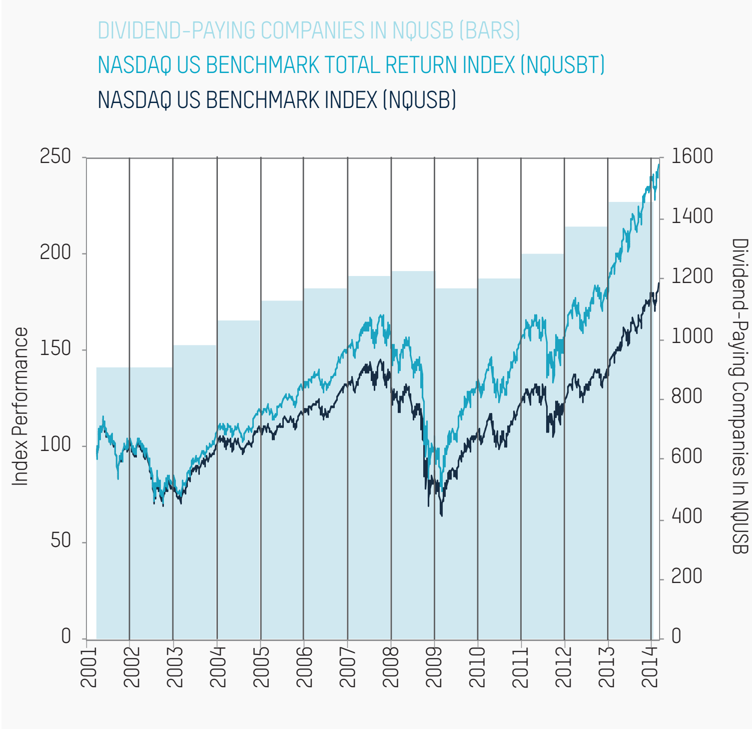
Dividend payments, a way for a company to share profits with shareholders, have existed for over a century. Demand from shareholders for such a payment has varied over the years along with market conditions, tax rates, and investor preferences. Until the 1980s, dividend payments were a popular complement to price appreciation. Yields were substantial, averaging nearly 5%, making dividends attractive to investors. However, over the next 20 years, the appeal of dividend income fell. The strong bull market of the 1980s and 1990s shifted investor focus from dividend income to price appreciation, allowing companies to cut dividend yields to as low as 1% by the year 2000.

POPULARITY OF DIVIDENDS INCREASING

The new millennium brought yet another shift in investor demand for dividends. Since the turn of the millennium, investors have experienced two recessionary periods. Market risk returned and with it came more demand for dividend income.

+ In 2013, 1,458 of the companies in the NASDAQ US Benchmark Index paid a dividend. Of these same companies, only 908 paid a dividend in 2001, an increase of 61%.
+ Of the 2013 index components, the number of companies paying a dividend increased every year since 2001 except for 2002 and 2009, the tails of the last two recessions.
+ Average dividend yields of these dividend-paying companies have been mostly between 2-3% each year.
+ The average yield has remained steady in most years because price appreciation has offset dividend increases. (During the 2008 financial crisis, the average dividend yield rose due to rapid downward price movements.)

FIGURE 1



+ In 2013, 73% of dividend paying companies in the index increased their annual dividend per share from 2012. However, the average yield of dividend-paying companies dropped from 2.9% to 2.5% meaning that the market appreciated at a greater rate than the dividend increases.
+ Should investors continue to value dividend income, the number of dividend-paying companies will likely grow. However, changing market conditions can affect both investor sentiment and a company's ability to pay a dividend.

FIGURE 2: NASDAQ US BENCHMARK INDEX (COMPONENTS AS OF 12/31/13)

YEAR	COMPANIES PAYING A DIVIDEND	COMPANIES THAT INCREASED THEIR DIVIDEND Y-O-Y	PERCENT OF DIVIDEND-PAYING COMPANIES THAT INCREASED THEIR DIVIDEND Y-O-Y	AVERAGE DIVIDEND YIELD OF DIVIDEND-PAYING COMPANIES
2001	908	-	-	2.8%
2002	908	573	63%	2.9%
2003	982	672	68%	2.2%
2004	1,058	798	75%	2.1%
2005	1,124	884	79%	2.8%
2006	1,169	903	77%	2.3%
2007	1,208	899	74%	2.8%
2008	1,228	775	63%	5.5%
2009	1,169	535	46%	3.0%
2010	1,203	638	53%	2.6%
2011	1,284	888	69%	2.9%
2012	1,371	990	72%	2.9%
2013	1,458	1,062	73%	2.5%

Note: All Data in Figure 2 is based on index components from year-end 2013.

BUYBACKS ALSO RETURN CAPITAL TO SHAREHOLDERS

Share buybacks are an alternative to dividend payments for returning capital to shareholders. Dividend payments offer a direct capital return to all shareholders in the form of cash. A share repurchase offers a direct capital return to the subset of investors that are willing to sell their shares, reducing the number of shares outstanding. Companies face various tradeoffs in choosing to return capital one way over the other. But all else being equal, buybacks increase a company's earnings per share and tend to provide support for the stock price. Further, buybacks are typically viewed as an encouraging signal from management that it has faith in the future of the company which correspondingly has a positive effect on investor confidence.

Roughly one-third of the companies in the NASDAQ US Benchmark Index reduced their number of shares outstanding from 2012 to 2013, meaning that they bought back more shares than they issued. (The NASDAQ US Buyback Achievers Index (DRB) tracks companies that have effected a net reduction in shares outstanding of 5% or more in the trailing 12 months.)

* Source(s): NASDAQ OMX Global Indexes Research. NASDAQ OMX Economic & Statistical Research. Ford Equity Research. Bloomberg. FactSet.

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