

# Dividends Do Matter

AUGUST 2004

## ABSTRACT

Numerous trends are examined that suggest recent increased interest in dividend income from equities is likely to continue and perhaps increase further well into the future. Existing equity indexes are found to measure a capital-gains-oriented investment strategy and not income-oriented equity investment strategies. New design principles are described that are aimed at measuring the segment of the equity market that is income oriented. The resulting Dow Jones Select Dividend Index is backtested to 1991 and found to have outperformed many benchmark indexes.\* Comparisons with other equity indexes find that it has also performed consistently with or better than indexes measuring conservative capital gains-oriented investment strategies.

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## SUMMARY

Disenchantment with the recent bear market and the substantial reduction in federal taxes on corporate dividends in 2003 have sparked renewed interest among investors and money managers in dividend payouts. But a survey of the indexing field found no indexes available that measure the performance of companies that consistently pay dividends to their shareholders. Dow Jones Indexes took steps to fill that gap.

The process by which Dow Jones Indexes developed the distinctly different Dow Jones Select Dividend Index is described herein. Examination of this process should be instructive to index providers, and should prove useful to investors and money managers wanting insight into how this new index can be a measurement tool in observing a dividend-oriented investment strategy.

Backtesting the results to the end of 1991 – the full period in which data for the underlying Dow Jones U.S. Total Market Index is available – finds that this process not only has produced a very satisfactory index for such investors, but has paid a dividend of its own: The Dow Jones Select Dividend Index also proves to be an attractive alternative for conservative, capital-gains-oriented investors and money managers of all kinds.

*\*This document contains comparisons, assertions, and conclusions regarding the performance of the Dow Jones Select Dividend Index based on backtesting, i.e., calculations of how the index might have performed in the past if it had existed. The Dow Jones Select Dividend Index was not designed, and was not calculated, between 1991 and 2003. As described in more detail at the end of this document, backtested performance information is purely hypothetical and is provided in this document solely for informational purposes. Backtested performance does not represent actual performance, and should not be interpreted as an indication of actual performance.*

## CONTENTS

3	Back To The Future
4	Innovation Needed
5	What Do You Need in a Dividend Income Index?
8	Weighting Dividends
9	The Proof Of The Pudding Is In The Testing
11	Dow Jones Select Dividend Index Compared With Other Yield-Based products
12	Dow Jones Select Dividend Index Compared With Other Market Measures
15	Appendix

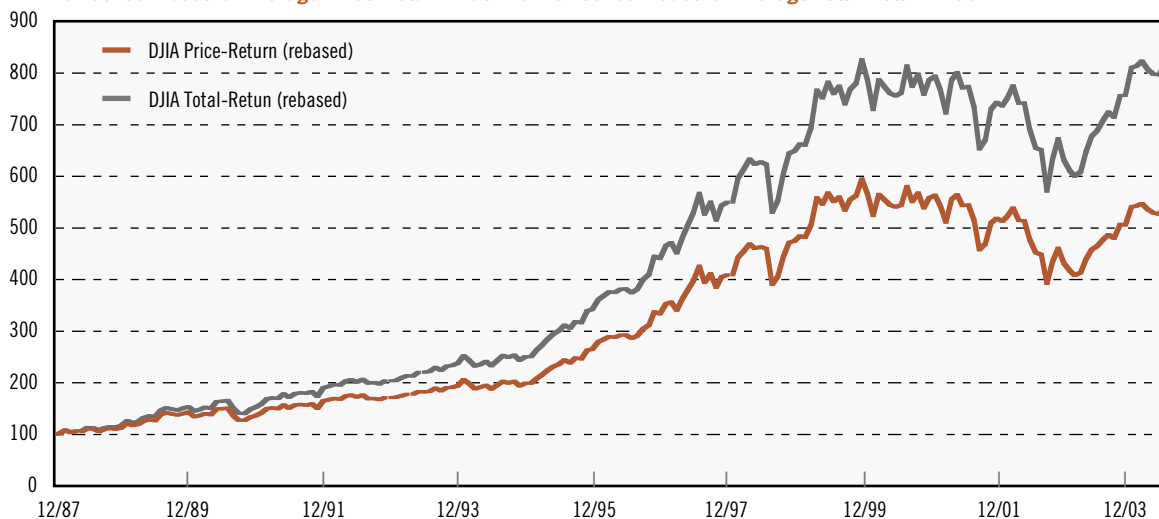
## CHARTS AND TABLES

3	Dow Jones Industrial Average Price-Return Index vs. Dow Jones Industrial Average Total Return Index
7	Dow Jones Select Dividend Index vs. the Consumer Price Index
9	Payout per \$1000 Invested (1992 - 2003)
11	Dow Jones Select Dividend Index vs. Dow Jones Equity REIT Index
11	Dow Jones Select Dividend Index vs. Dow Jones U.S. Utilities Index
12	Dow Jones Select Dividend Index vs. Dow Jones Corporate Bond Index
12	Dow Jones Select Dividend Index vs. Dow Jones U.S. Total Market Index
13	Dow Jones Select Dividend Index vs. Dow Jones U.S. Large-Cap Index
13	Dow Jones Select Dividend Index vs. Dow Jones U.S. Large-Cap Growth Index and Dow Jones U.S. Large-Cap Value Index
14	Dow Jones Select Dividend Index vs. S&P 500
14	Dow Jones Select Dividend Index vs. NASDAQ Composite
15	Performance Comparisons
16	Historical Price-to-Earnings Ratios
16	Historical Dividend Yield Ratios
17	Volatility Comparisons
17	Correlation Comparisons
18	Dow Jones Select Dividend Index Historical Sector Weights
18	Dow Jones Select Dividend Index Historical Size Segment Weights
19	Dow Jones Select Dividend Index Components

## BACK TO THE FUTURE

Once upon a time, dividends mattered quite a lot to equity investors – with good reason. From 1929 to 2002 the Dow Jones Industrial Average, to use a traditional proxy for large blue chips, produced an average return of about 11.31% a year. Of that 11.31%, about 6.9 points were capital gains and about 4.3 points, which is to say 38% of the average annual total return, came from dividends. And this includes the 1990s, when capital gains were rampant, and boards of directors and equity investors alike were often downplaying or even ignoring dividend payouts.

*Dow Jones Industrial Average Price-Return Index vs. Dow Jones Industrial Average Total-Return Index*



*Data based on index data from 12/31/87 to 6/30/04.  
Past performance is not indicative of future results, which may vary.*

By the 1990s, taxes on capital gains were significantly lower than taxes on dividends, which were largely taxed at ordinary-income (*i.e.*, relatively high) rates. Companies argued, with some success, that it was better to reinvest money or use it for stock buybacks and reap the eventual capital gains benefit than pay it out in dividends. In 1997 the capital gains maximum tax was cut to 20%, approximately less than half the top rate for dividends, adding further fuel to a gathering capital-gains frenzy among investors that culminated in the bubble market that peaked in 2000.

Now dividends are mattering again to many investable companies and to investors. Taxes and the rise and fall of speculative frenzy seem to have played a large role in this new turnabout in attitudes. First came the bursting of the bubble and then the recent recession. Capital losses widely replaced capital gains. In 2003 a new round of tax cuts put capital gains and most corporate dividends (REIT dividends being one major exception) on equal and more attractive footing – the maximum rate on both was set at 15% through 2008 (after which the rates are scheduled to revert to previous higher rates if Congress fails to act). Meanwhile, Federal Reserve efforts to stem the recession forced interest rates to historic lows, causing the fully taxable yields on CDs and corporate bonds to drop to extraordinarily low levels.

So, corporate dividends with their partial tax protection have come to look much more attractive to many classes of investors. Which leads to the question, how best for investors and money managers to measure, select, invest in and benchmark corporate dividend-oriented investments?

## INNOVATION NEEDED

It may seem there is already an index for everything in the equity markets, but that proved not to be the case here. To be sure, there were a number of indexes suggested as full or partial proxies for equity dividend investments, but all came up short. For example:

**LARGE BLUE-CHIP INDEXES**, such as the Dow Jones Industrial Average, are likely to include stable, well-financed companies with excellent dividend coverage, but they will necessarily overlook numerous dividend payers merely because they are not gigantic in size. Moreover, they are hard put to leave out such a company as Microsoft, a modern blue chip by anybody's standard, whose dividend will be less than exciting to almost any income-oriented investor.

**VALUE INDEXES**, if broad-based, may capture a lot of dividend stocks, but again will include many with small or zero dividends. Value criteria typically focus more on low ratios to book value or earnings than on dividends. Value compilations also have the drawback of including companies with uncertain financial or operating prospects that investors seeking stable or growing income may prefer to avoid.

**UTILITIES INDEXES** have the merit of measuring a class of equities traditionally popular among dividend-oriented investors, but narrow the dividend-paying universe down to a single industry, undesirably limiting investment options and exposing investors to industry risk. Moreover, some utility holding companies falling under such a rubric have less-than-desirable recent records as safe investments.

**BROAD EQUITY MARKET INDEXES** may include nearly every name a dividend investor might want, but perforce will also include nearly every name such an investor would not want.

**REIT INDEXES** measure a category of equities that are in a class by themselves and therefore require special treatment. While something dividend-oriented investors may consider, REITs have very different tax treatment from other equity classes and carry exposure to real estate industry risk.

Many such indexes weight their components by market capitalization, for example. That is a useful measure for broad diversification across a category of equities or measuring the performance of a particular size of company, and permits the most successful index components in terms of capital appreciation to become more heavily weighted. However, such distinctions mean little to a dividend-oriented investment strategy once threshold standards for investable liquidity are met. Dividend-oriented investment strategies primarily seek cash income, safety, and inflation protection.

Many indexes are also designed to measure performance of equities according to industry category, nationality, growth-vs.-value orientation, conformity to cultural or ethical investment requirements, and the like. Again, such distinctions bear only slight relevance to dividend-oriented investing and often none at all.

It was clear that a new index methodology was needed. A fresh look had to be taken at the equity investment universe, this time with the indexing needs of such an investor foremost in mind.

## WHAT DO YOU NEED IN A DIVIDEND INCOME INDEX?

**BROAD COVERAGE.** Consistent with Dow Jones Indexes' other indexes, the Dow Jones Select Dividend Index methodology starts with the largest pool of investable equity names feasible. The Dow Jones U.S. Total Market Index provides that pool since its objective is to represent approximately 95% of the investable U.S. universe. As of June 30, 2004, the TMI contained 1,633 components.

**DIVIDENDS, OBVIOUSLY.** At the time of the Dow Jones Select Dividend Index annual component review in December 2003, the Dow Jones U.S. Total Market Index contained 847 stocks paying regular dividends.

**HIGH YIELD.** The Dow Jones Select Dividend Index methodology then screens components to include those with the highest safe yields. The 847 dividend payers were ranked from highest to lowest.

**TAX CONSISTENCY.** The Dow Jones Select Dividend Index methodology then screens components to include those with consistent tax treatment of dividends paid. REITs, whose dividends are taxable as ordinary income to their shareholders, and which have long been indexed separately by Dow Jones Indexes, were excluded from the universe of eligible issues.

**STABILITY AND GROWTH.** The Dow Jones Select Dividend Index methodology then screens components for stable, well-financed companies with safe dividends, preferably dividends with prospects for growth over time. This factor required some thought. A new index, in the view of Dow Jones Indexes, needs to be based on transparent, objective rules, not on subjective judgments, such as are often found underlying analyses of companies' prospects. Since income-oriented investors tend to put stability and safety of payout first, those issues were addressed first.

**1. COMPONENTS MUST HAVE AT LEAST A FIVE-YEAR RECORD TO DATE OF PAYING REGULAR DIVIDENDS WITHOUT REDUCING OR SKIPPING PAYMENTS.**

Although past performance is not necessarily indicative of future results, stable past dividend record is widely accepted as a starting point when seeking a stable future record. At the time of the Dow Jones Select Dividend Index annual component review in December 2003, that limitation produced a universe of 704 stocks with a good history of sustained payout.

In the case where this rule failed, the equity would automatically and immediately be removed from consideration. But safety required more than that, leading the development team to further experimentation. After extensive research, Dow Jones Indexes established a second rule:

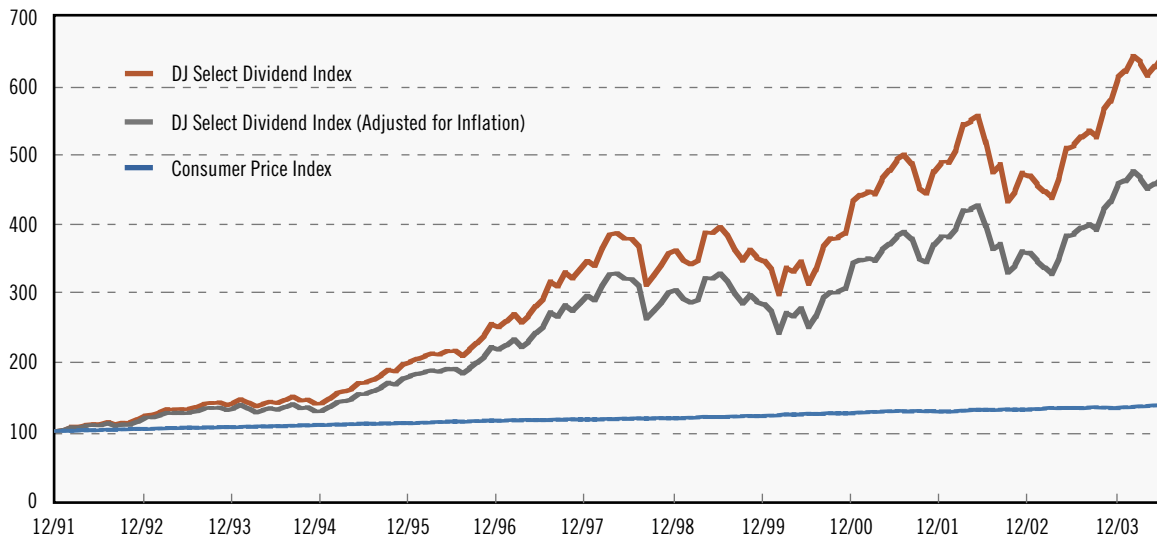
**2. COMPONENTS MUST ALSO HAVE A FIVE-YEAR RECORD TO DATE OF DIVIDEND PAYOUTS NO GREATER THAN 60% OF AVERAGE PER-SHARE EARNINGS.**

It has long been a commonplace for established companies to pay out up to half of net earnings, with due allowance for maintaining payments in occasional poor-performance years. Pragmatically, companies that held bad years down to 60% payouts proved to be safer bets for sustaining dividends. And this standard easily eliminated most weak or troubled companies altogether. During the most recent annual component review, this restriction brought the count down to 574 companies.

There was little problem in selecting the 100 best-yielding equities from this universe: 50 for the index and a second 50 to provide a pool of replacement stocks.

**INFLATION PROTECTION.** This is commonly the concern that is a close second in importance to stability and safety of payout for income-oriented investors. A traditional argument for equity investments has been the opportunity to match or exceed general inflation. In practice, backtesting of the Dow Jones Select Dividend Index has revealed that its performance is consistent with this objective.

*Dow Jones Select Dividend Index vs. the Consumer Price Index*



*Dow Jones Select Dividend Index data based on total-return values from 12/31/91 to 6/30/04.  
Past performance is not indicative of future results, which may vary.*

**LIQUIDITY.** The Dow Jones U.S. Total Market Index has rules in place assuring a universe of investable securities for those who want to replicate it or use it as a benchmark for comparison purposes. However, the index contained 1,633 stocks as of June 30, 2004, meaning the average weight of an individual stock would be 0.06%, and the recent maximum weight was 2.1%, for General Electric. For the 50-stock Dow Jones Select Dividend Index, the average weight would be 2.00%, with a maximum weighting in the vicinity of 4.94%. Greater liquidity would be required.

Dow Jones Indexes selected a \$10 million Select Dividends replicating “basket” as a working standard to develop a minimum acceptable degree of liquidity. Since a typical individual stock weighting would be 1.5% (quite a few individual components falling below the average), that would imply a \$150,000 investment in the average stock in such a basket. The aim was to be able to make such an investment in one day. It is normally thought that a competent trading desk can buy or sell 10% of a stock’s daily trading volume without unduly “moving” the market. That would suggest that a stock must have an average daily trading volume of \$1.5 million, which was thus set as the liquidity standard to be included in this index, unless and until practical experience indicates a higher standard is needed.

## WEIGHTING DIVIDENDS

A key issue in index development is how to weight the components. As already seen, a market-cap weighting scheme fails to give an appropriate weight to a company that pays a substantial cash dividend. Equal-weighting of components can be a useful alternative in many cases.

But to create an index that reflects a dividend-oriented investment strategy forced Dow Jones Indexes to think like a dividend-oriented investor and come to a very different conclusion. A dividend-oriented investor is interested in cash income. Market capitalization as such is not a significant issue once market-liquidity needs are met. And weighting a component yielding a relatively lower dividend equally with one yielding a higher dividend made no sense at all. If Dow Jones Indexes was going to innovate in the area of dividend orientation, it was going to have to innovate in the area of component weighting as well.

Obviously, it made sense to weight such an index by the dividend-payout ratios of the components, but that approach had problems of its own.

It was one thing to select stocks for this index by yield; that was essentially a one-time event, and would be usually a once-a-year event for the continuing index. But the simplistic approach of ranking simply by yield had a flaw: Yield is a function of price, which fluctuates daily for most equities, sometimes dramatically so ( $\text{Yield} = \text{Dividend}/\text{Price}$ ). Their yields necessarily fluctuate also. This approach would require frequent – perhaps even daily – rebalancing of the resultant index. That would sharply reduce if not eliminate altogether the value of the index for those replicating it for investment purposes or basing exchange-traded products on it (because of transaction costs and fluctuations in return), and greatly complicate the process of bench-marking against it. We needed to look for another approach.

Back to thinking like a dividend-oriented investor again.

Such an investor looks for high but safe yield. But once invested, he or she ideally receives a steady stream of cash dividends that changes in amount over time only slowly or not at all, whatever the prices of the stocks may do. And this stream is what he or she is primarily investing for. What if one chose components by yield, but weighted them according to the income stream the investor wants rather than the yield?



Then components were weighted by the dollar amount of the dividend each paid. Immediately, the index stabilized. Now it required only the normal annual rebalancing (except for singular events like mergers, bankruptcies, or a significant dividend reduction) common to virtually all equity indexes. Adjusting for stock splits or other capitalization changes was just as routine for a dividend-oriented index as it was for other equity indexes.

## THE PROOF OF THE PUDDING IS IN THE TESTING

Dow Jones Indexes backtested the performance of the result of the index methodology over 12 years, the longest period available for the underlying Dow Jones U.S. Total Market Index, comparing this index with market-cap weighting of the same components (since weighting the index by dividend-yield had already been rejected for other reasons). The results were as follows:

*PAYOUT PER \$1,000 INVESTED 1992-2003* (Higher Values In Bold)

YEAR	DIVIDEND WEIGHTED	MARKET-CAP WEIGHTED
1992	<b>\$46.77</b>	\$45.20
1993	\$42.47	<b>\$42.67</b>
1994	<b>\$44.72</b>	\$43.99
1995	<b>\$51.06</b>	\$49.28
1996	<b>\$40.49</b>	\$39.16
1997	<b>\$38.06</b>	\$36.17
1998	<b>\$33.32</b>	\$30.31
1999	<b>\$38.44</b>	\$32.71
2000	<b>\$50.52</b>	\$46.99
2001	<b>\$53.12</b>	\$52.29
2002	\$43.71	<b>\$44.61</b>
2003	\$47.13	<b>\$51.01</b>

For nine years of the first ten, dollar-dividend weighting produced a noticeably better payout than market-cap weighting, better by amounts up to 17.1%. The one exceptional year, 1993, found it lagging by only 0.47%.

Only in the most recent two of the 12 years has market-cap noticeably outperformed by this measure. An examination of the component data showed why: Virtually all the difference was accounted for by a single component, Altria Corp. (the company formerly known as Philip Morris). During that period it not only paid the highest or among the highest cash dividends, but also had the highest or among the highest yields and market caps among all components. The result: Altria won a 20%+ weighting by market cap, but received only a bit over 4% under dividend weighting. The fivefold higher weighting skewed the resulting dividend payout.

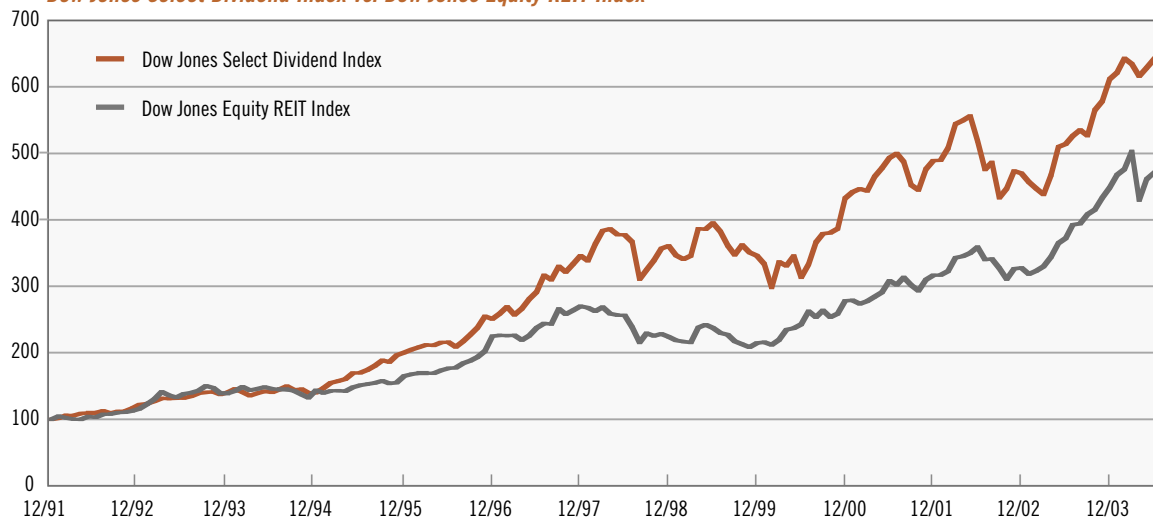
In the view of Dow Jones Indexes, this one exception was not a reason to revert to market-cap weighting. Moreover, a weighting of 20% or more in one component in an index is not acceptable in an index designed as a benchmark for a segment of the marketplace presumptively pursuing safety, for which a well-diversified portfolio is a major requirement. Better to accept a lower but still quite good yield and income stream and have the diversification demanded. This consideration was particularly important in this case because the component in question is Altria, whose signature product, cigarettes, is considered a major causative factor in heart disease, cancer and emphysema. Whatever the eventual outcome for Altria, moreover, the historical record suggests that a list of large, reliable dividend payers dominated by a single top-paying component is an anomalous situation, one that should not be counted upon to persist over the long run.

Dow Jones Indexes discovered through backtesting of the Dow Jones Select Dividend Index that the growth of its dividend stream outperformed inflation and that its price-based return did the same.

Dow Jones Indexes discovered the Dow Jones Select Dividend Index also outperformed vis-à-vis other indexes of income-yielding investments as follows.

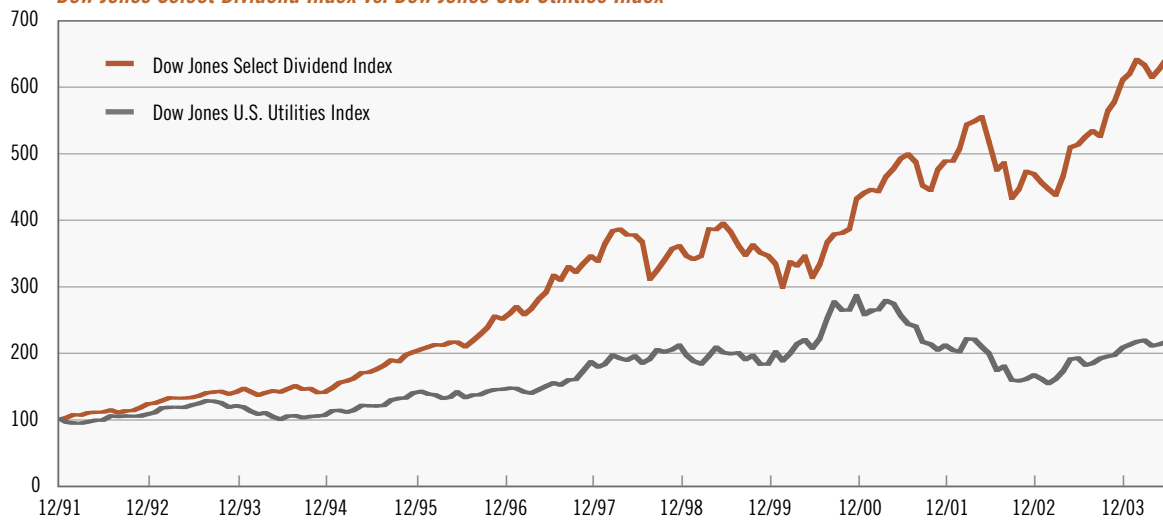
## DOW JONES SELECT DIVIDEND INDEX COMPARED WITH OTHER YIELD-BASED PRODUCTS

**Dow Jones Select Dividend Index vs. Dow Jones Equity REIT Index**



*Data based on total-return index values from 12/31/91 to 6/30/04.  
Past performance is not indicative of future results, which may vary.*

**Dow Jones Select Dividend Index vs. Dow Jones U.S. Utilities Index**

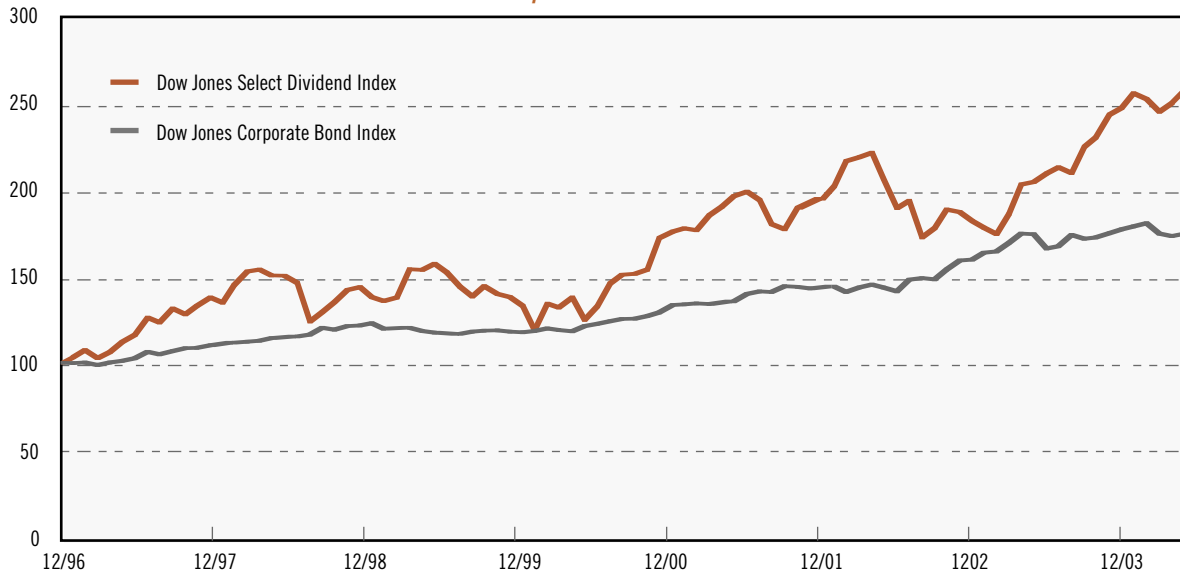


*Data based on total-return index values from 12/31/91 to 6/30/04.  
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AUGUST 2004

**Dow Jones Select Dividend Index vs. Dow Jones Corporate Bond Index**

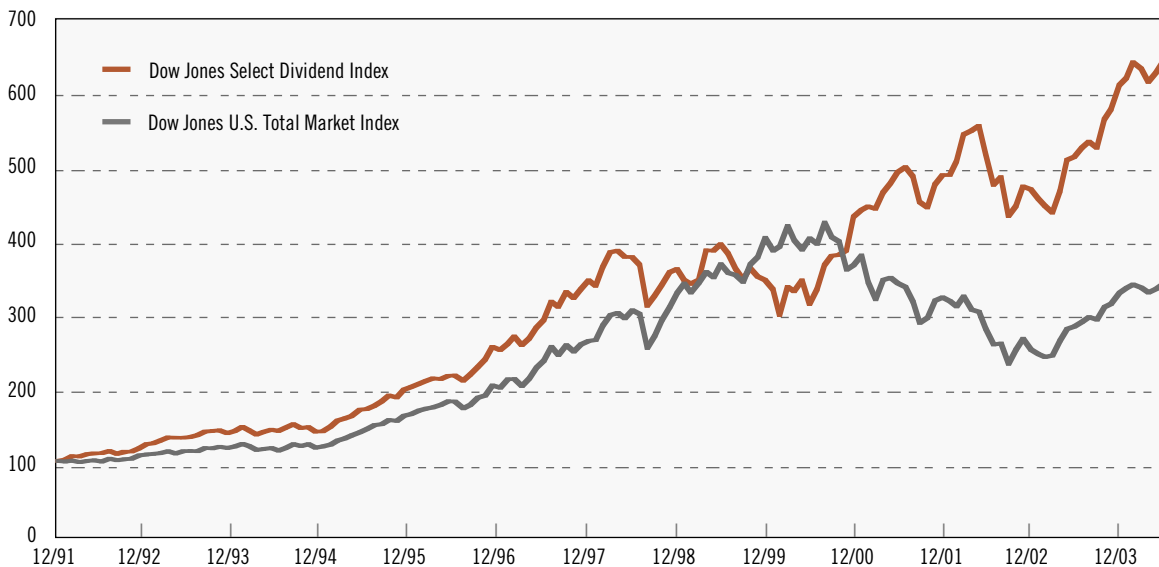


*Data based on total-return index values from 12/31/96 to 6/30/04.  
Past performance is not indicative of future results, which may vary.*

## DOW JONES SELECT DIVIDEND INDEX COMPARED WITH OTHER MARKET MEASURES

Backtesting to 1991, the longest test period available, finds this index has performed very well compared with other market indexes over the long term.

**Dow Jones Select Dividend Index vs. Dow Jones U.S. Total Market Index**

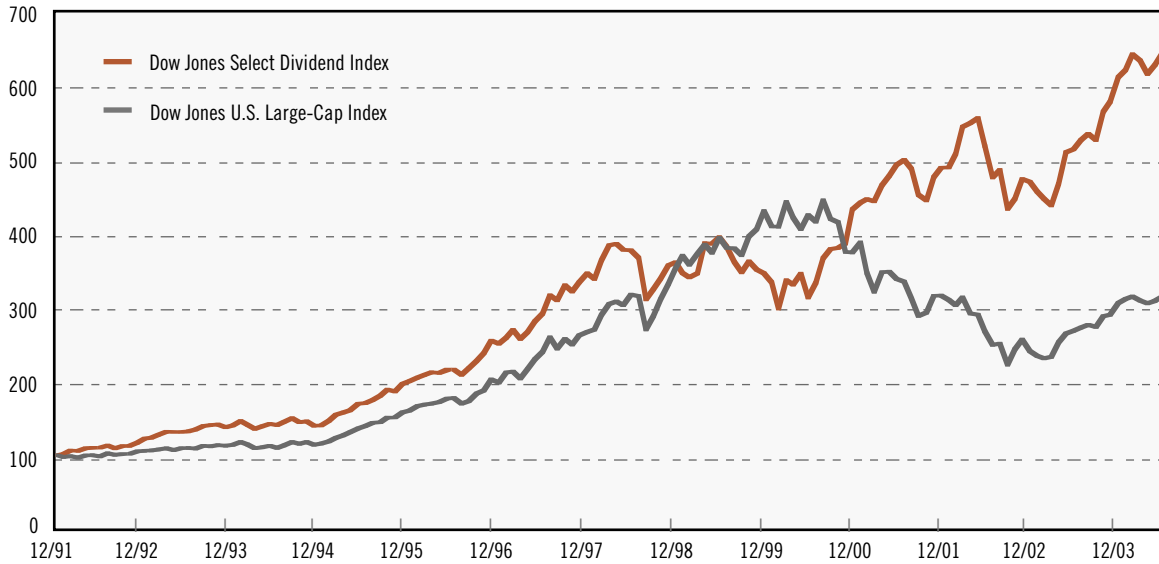


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# Dividends Do Matter

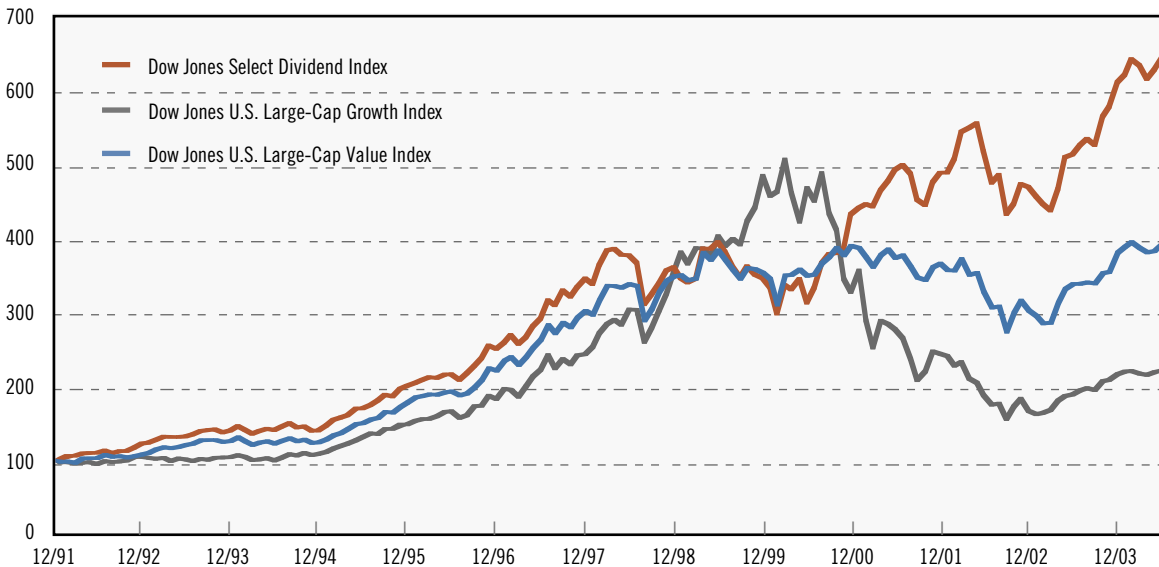
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**Dow Jones Select Dividend Index vs. Dow Jones U.S. Large-Cap Index**



*Data based on total-return index values from 12/31/91 to 6/30/04.  
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**Dow Jones Select Dividend Index vs. Dow Jones U.S. Large-Cap Growth and Dow Jones U.S. Large-Cap Value Index**

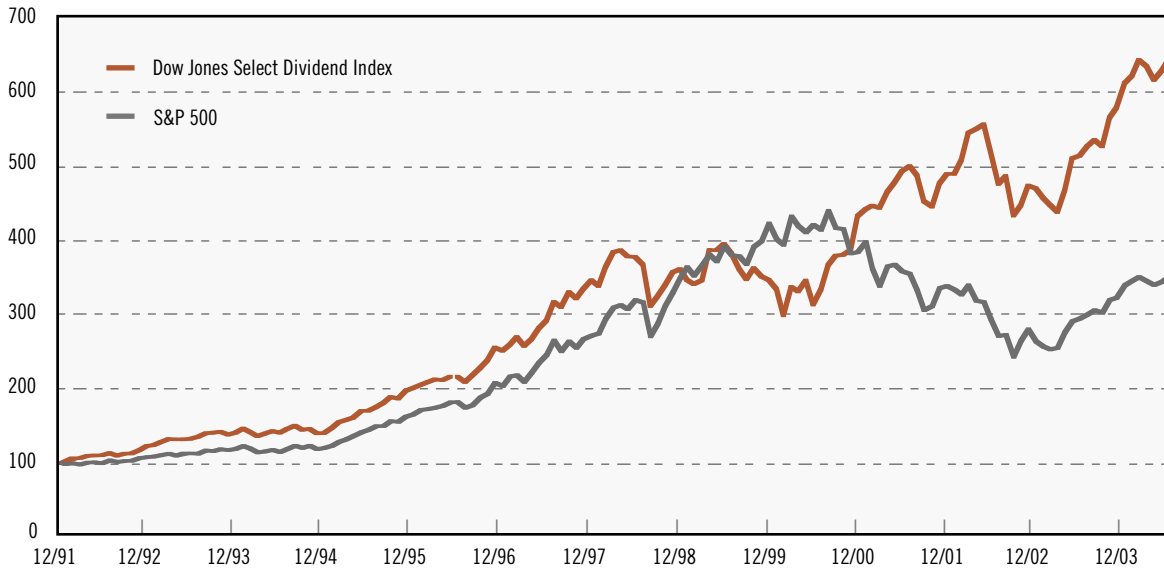


*Data based on total-return index values from 12/31/91 to 6/30/04.  
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# Dividends Do Matter

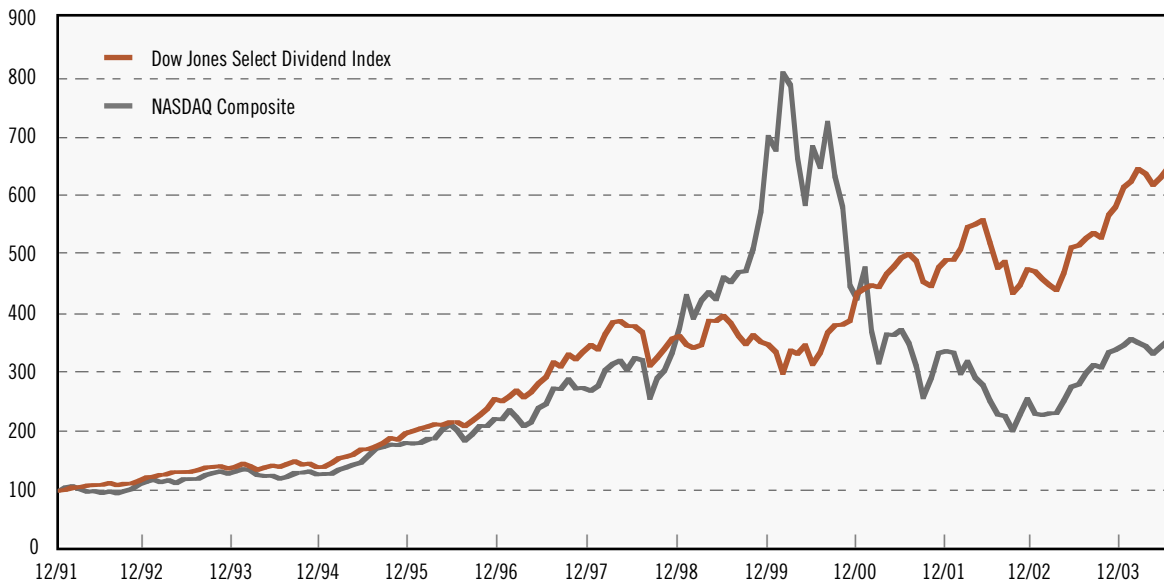
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### Dow Jones Select Dividend Index vs. S&P 500



Data based on total-return index values from 12/31/91 to 6/30/04.  
Past performance is not indicative of future results, which may vary.

### Dow Jones Select Dividend Index vs. NASDAQ Composite



Data based on total-return index values from 12/31/91 to 6/30/04.  
Past performance is not indicative of future results, which may vary.

As you can see, these dividend payers have been significantly outperformed only during the bubble period in the late 1990s.

It turns out that Dow Jones Indexes' new Dow Jones Select Dividend Index would be a very attractive alternative to many investors and money managers seeking to outperform the conventional range of equity indexes under most market conditions that have been observed in the past 12 years.

Dow Jones Indexes had not expected its new Dow Jones Select Dividend Index to shed new light on that ancient debate about the merits of old-fashioned, old-school investing – for and against the school that calls on one to invest in solid, stable companies paying good dividends and hold them for the long term. But innovating to break new ground can sometimes take one in unexpected directions, and even yield new insights. This finding was, however, an additional piece of evidence supporting something Dow Jones Indexes was not surprised to find:

**Dividends do matter.**

## APPENDIX

### *Annualized Performance (%)*

INDEX	1-YEAR	3-YEAR	5-YEAR	7-YEAR	10-YEAR	12-YEAR
Dow Jones Select Dividend Index	25.28	9.31	10.26	11.97	16.41	15.83
Dow Jones Corporate Bond Index	-0.09	8.77	8.21	7.85	N/A	N/A
Dow Jones Equity REIT Index	27.33	15.37	14.81	10.35	12.48	13.50
Dow Jones U.S. Large-Cap Index	17.09	-2.44	-4.43	3.93	11.06	10.13
Dow Jones U.S. Large-Cap Growth Index	16.97	-7.25	-11.30	-0.09	8.25	7.31
Dow Jones U.S. Large-Cap Value Index	15.85	1.64	0.43	5.84	12.31	11.76
Dow Jones U.S. Total Market Index	20.38	-0.10	-1.51	5.37	11.55	10.85
Dow Jones U.S. Utilities Index	12.94	-5.44	1.57	5.44	8.11	6.78
NASDAQ Composite	26.20	-1.66	-5.14	5.26	11.33	11.43
S&P 500	19.11	-0.69	-2.20	5.23	11.83	11.07

*Data based on total-return index values as of 6/30/04.  
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# Dividends Do Matter

AUGUST 2004

## Historical Price-to-Earnings Ratios (%)

INDEX	6/04	12/03	12/02	12/01	12/00
Dow Jones Select Dividend Index	15.33	15.52	12.61	13.76	12.31
Dow Jones Equity REIT Index	26.91	26.64	21.75	19.40	16.32
Dow Jones U.S. Large-Cap Index	18.66	19.85	17.34	21.63	25.44
Dow Jones U.S. Large-Cap Growth Index	23.80	26.50	22.68	35.01	37.42
Dow Jones U.S. Large-Cap Value Index	15.16	15.76	15.09	17.67	20.42
Dow Jones U.S. Total Market Index	18.80	19.67	16.93	23.27	23.28
Dow Jones U.S. Utilities Index	14.64	14.01	11.71	11.97	19.11

*Data is as of 6/30/04 and includes negative earnings figures.  
Past performance is not indicative of future results, which may vary.*

## Historical Dividend Yield Ratios (%)

INDEX	6/04	12/03	12/02	12/01	12/00
Dow Jones Select Dividend Index	3.80	3.87	4.48	4.23	4.58
Dow Jones Equity REIT Index	5.50	5.59	7.09	6.81	7.12
Dow Jones U.S. Large-Cap Index	1.75	1.66	1.87	1.37	1.07
Dow Jones U.S. Large-Cap Growth Index	0.87	0.73	0.84	0.51	0.37
Dow Jones U.S. Large-Cap Value Index	2.77	2.78	2.74	2.01	1.76
Dow Jones U.S. Total Market Index	1.64	1.57	1.80	1.35	1.16
Dow Jones U.S. Utilities Index	3.80	3.82	4.74	3.88	3.11

*Data is as of 6/30/04.  
Past performance is not indicative of future results, which may vary.*



# Dividends Do Matter

AUGUST 2004

## Volatility (%)

INDEX	3-YEAR	5-YEAR	7-YEAR	10-YEAR
Dow Jones Select Dividend Index	15.60	17.46	17.76	16.39
Dow Jones Corporate Bond Index	7.01	5.89	5.61	N/A
Dow Jones Equity REIT Index	14.81	13.80	14.33	13.48
Dow Jones U.S. Large-Cap Index	16.41	17.43	17.98	16.84
Dow Jones U.S. Large-Cap Growth Index	20.28	25.20	24.32	22.42
Dow Jones U.S. Large-Cap Value Index	15.44	15.20	15.96	15.01
Dow Jones U.S. Total Market Index	16.50	17.22	17.73	16.55
Dow Jones U.S. Utilities Index	18.19	19.56	18.62	17.12
NASDAQ Composite	26.52	34.54	32.66	29.98
S&P 500	16.33	16.73	17.32	16.21

Data is based on monthly total-return index values as of 6/30/04.  
Past performance is not indicative of future results, which may vary.

## Correlation

INDEX	1	2	3	4	5	6	7	8	9	10
Dow Jones Select Dividend Index	1.0000									
Dow Jones Corporate Bond Index	0.1236	1.0000								
Dow Jones Equity REIT Index	0.4534	0.1700	1.0000							
Dow Jones U.S. Large-Cap Index	0.5350	0.0652	0.1618	1.0000						
Dow Jones U.S. Large-Cap Growth Index	0.3286	0.0408	0.0815	0.9517	1.0000					
Dow Jones U.S. Large-Cap Value Index	0.8285	0.0888	0.2928	0.7661	0.5689	1.0000				
Dow Jones U.S. Total Market Index	0.5661	0.0736	0.2157	0.9915	0.9387	0.7505	1.0000			
Dow Jones U.S. Utilities Index	0.6317	0.1651	0.4384	0.2750	0.1018	0.5496	0.3181	1.0000		
NASDAQ Composite	0.1477	0.0368	0.0660	0.8381	0.9182	0.3322	0.8566	0.0135	1.0000	
S&P 500	0.6160	0.0645	0.2124	0.9906	0.9210	0.8196	0.9866	0.3288	0.7865	1.0000

Data is based on monthly total-return index values from 6/30/99 to 6/30/04.  
Past performance is not indicative of future results, which may vary.

# Dividends Do Matter

AUGUST 2004

## Dow Jones Select Dividend Index Historical Sector Weights (%)

SECTOR	6/04	12/03	12/02	12/01	12/00	12/99	12/98	12/97	12/96	12/95	12/94	12/93	12/92
Basic Materials	12.76	12.67	13.32	14.16	7.62	23.21	13.54	5.91	6.74	8.90	12.36	17.85	14.68
Consumer, Cyclical	4.69	4.90	10.24	12.62	12.93	6.59	8.18	4.72	5.18	3.10	2.47	9.01	10.08
Consumer, Noncyclical	6.00	6.19	7.31	6.96	5.34	1.90	4.46	7.06	6.14	7.15	7.27	1.77	1.52
Energy	3.49	3.15	3.10	2.48	0.00	10.65	7.05	11.61	12.10	11.75	15.36	14.26	9.74
Financial	43.62	42.86	32.40	30.13	27.25	36.29	37.71	53.13	49.62	40.51	34.94	29.31	43.79
Health Care	1.45	1.75	1.78	0.00	0.00	0.00	2.96	1.73	9.29	11.30	11.85	8.93	5.67
Industrial	3.03	2.93	10.07	11.24	16.35	7.28	7.31	5.75	3.33	6.02	7.51	10.74	9.78
Technology	0.00	0.00	0.00	0.00	0.73	0.00	0.00	0.62	0.88	0.00	0.00	1.55	1.19
Telecommunications	2.91	3.24	0.00	0.00	0.00	0.00	3.00	0.00	0.00	0.00	0.00	0.00	0.00
Utilities	22.05	22.32	21.78	22.40	29.78	14.09	15.79	9.47	6.72	11.27	8.25	6.58	3.54

Values are based on month-end data.

Past performance is not indicative of future results, which may vary.

## Dow Jones Select Dividend Index Historical Size Segment Weights (%)

SIZE SEGMENT	6/04	12/03	12/02	12/01	12/00	12/99	12/98	12/97	12/96	12/95	12/94	12/93	12/92
Large-Cap	39.02	41.03	40.07	22.73	16.20	42.46	53.79	63.54	79.48	71.93	69.77	65.18	43.92
Mid-Cap	37.69	32.63	36.02	48.82	58.96	44.45	40.61	31.45	20.52	27.84	30.23	34.82	50.10
Small-Cap	23.29	26.34	23.90	28.46	24.84	13.09	5.60	5.01	0.00	0.23	0.00	0.00	5.98

Values are based on month-end data.

Past performance is not indicative of future results, which may vary.

# Dividends Do Matter

AUGUST 2004

## Dow Jones Select Dividend Index Components

COMPANY	TICKER	ECONOMIC SECTOR	DIVIDEND YIELD (%)	WEIGHT IN INDEX (%)
Bank of America Corp.	BAC	Financial	3.78	4.94
Altria Group Inc.	MO	Consumer, Noncyclical	5.43	3.58
FPL Group Inc.	FPL	Utilities	3.88	3.42
People's Bank (Bridgeport)	PBCT	Financial	3.72	3.17
DTE Energy Co.	DTE	Utilities	5.08	3.05
Eastman Chemical Co.	EMN	Basic Materials	3.81	3.04
Comerica Inc.	CMA	Financial	3.79	2.94
PNC Financial Services Group Inc.	PNC	Financial	3.77	2.83
Unitrin Inc.	UTR	Financial	3.90	2.68
Nicor Inc.	GAS	Utilities	5.48	2.66
General Motors Corp.	GM	Consumer, Cyclical	4.29	2.66
Pinnacle West Capital Corp.	PNW	Utilities	4.46	2.65
PPG Industries Inc.	PPG	Basic Materials	2.88	2.47
Universal Corp.	UVV	Consumer, Noncyclical	3.06	2.42
Lincoln National Corp.	LNC	Financial	2.96	2.37
FirstEnergy Corp.	FE	Utilities	4.01	2.27
Whitney Holding Corp.	WTNY	Financial	2.96	2.15
J.P. Morgan Chase & Co.	JPM	Financial	3.51	2.10
Genuine Parts Co.	GPC	Consumer, Cyclical	3.02	2.03
Associated Banc-Corp.	ASBC	Financial	3.37	2.02
Dow Chemical Co.	DOW	Basic Materials	3.29	1.94
National City Corp.	NCC	Financial	3.66	1.91
Black Hills Corp.	BKH	Utilities	3.94	1.91
KeyCorp	KEY	Financial	4.15	1.83
Lubrizol Corp.	LZ	Basic Materials	2.84	1.78
Hudson United Bancorp	HU	Financial	3.54	1.76
Occidental Petroleum Corp.	OXY	Energy	2.27	1.76
R.R. Donnelley & Sons Co.	RRD	Industrial	3.15	1.74
Marathon Oil Corp.	MRO	Energy	2.64	1.73
Provident Financial Group Inc.	PFGI	Financial	2.43	1.72
PPL Corp.	PPL	Utilities	3.57	1.71
Duquesne Light Holdings Inc.	DQE	Utilities	5.18	1.57
SBC Communications Inc.	SBC	Telecommunications	5.15	1.55
Citizens Banking Corp.	CBCF	Financial	3.67	1.55
Energy East Corp.	EAS	Utilities	4.29	1.51
FirstMerit Corp.	FMER	Financial	3.94	1.50
AmSouth Bancorp	ASO	Financial	3.77	1.46
Bristol-Myers Squibb Co.	BMJ	Health Care	4.57	1.45
Lyondell Chemical Co.	LYO	Basic Materials	5.18	1.42
BellSouth Corp.	BLS	Telecommunications	4.12	1.36
Provident Bankshares Corp.	PBKS	Financial	3.47	1.35
MeadWestvaco Corp.	MWV	Basic Materials	3.13	1.33
NiSource Inc.	NI	Utilities	4.46	1.30
Sonoco Products Co.	SON	Industrial	3.45	1.29
Washington Federal Inc.	WFSL	Financial	3.50	1.19
Sky Financial Group Inc.	SKYF	Financial	3.40	1.16
Hibernia Corp. CI A	HIB	Financial	2.96	1.08
Huntington Bancshares Inc.	HBAN	Financial	3.06	1.04
Colonial Bancgroup Inc.	CNB	Financial	3.19	0.85
RPM International Inc.	RPM	Basic Materials	3.68	0.78

Data as of 7/1/04

# Dividends Do Matter

AUGUST 2004

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