

## DJ FOCUS: Dividend Fund Catches Investors' Fancy

9 March 2010 11:00

By Ian Salisbury

Of DOW JONES NEWSWIRES

NEW YORK (Dow Jones)--Corporations are once again moving to raise dividends and investors appear to have taken notice, in particular snapping up shares of Vanguard Dividend Appreciation ETF (VIG).

Investors have poured about \$490 million so far this year into the \$2.5 billion fund, which tracks about 150 blue chip stocks like Procter & Gamble Co. (PG), Coca-Cola Co. (KO), and Johnson & Johnson (JNJ).

The move follows a strong month for dividends. Among companies in the Standard & Poor's 500, 47 hiked or started new dividends and only one resorted to a decrease, says Standard & Poor's analyst Howard Silverblatt. That's a much rosier picture than a year ago, when 30 increases were offset by 23 companies cutting or suspending payouts. Standard & Poor's expects payouts to increase 5.6% this year, although they may not return to 2008 levels until 2012 or 2013.

Vanguard Dividend Appreciation focuses on some of the largest U.S. companies. Its yield, about 2.09%, is only slightly better than 1.97% yield of the Vanguard ETF that targets the market as a whole; both funds own many of the same names. Still, financial advisers that own Dividend Appreciation say the extra income is welcome, especially when it comes attached to the highest-quality stocks.

"My clients are pretty conservative," says Helen Huntley, an adviser in St. Petersburg, Fla., who owns Dividend Appreciation herself and uses it with clients, typically in conjunction with more value- and growth-oriented funds. "If your interest is pure income, this is not what you are going to buy. But if you want income and some growth it's something you might use."

The Vanguard fund is hardly the only ETF to focus on dividends. WisdomTree Investments Inc., for one, offers a slate of such funds. There are dozens of conventional mutual funds too.

Among the distinguishing features of the Vanguard ETF are its focus on companies with a track record of raising payouts, a practice many investors think signals a businesses' health, and its investment fees. The fees, which amount to 0.24% of assets annually, are high compared to top index funds that target the market as a whole but far lower than the costs of the typical mutual fund.

One pitfall suggested by the sudden popularity of Dividend Appreciation is that investors are looking to the fund not as a conservative alternative to their other stock holdings, but as an aggressive alternative to fixed-income, especially with the Federal Reserve holding interest rates very low, crimping yields on other types of investments.

Howard Cadwell, a Brentwood, N.H., financial adviser who uses Vanguard Dividend Appreciation with certain clients suspects others may be misusing dividend funds, swapping them into their portfolios for securities like Treasuries and high-quality bonds, which also provide income but whose values are far less volatile.

"When I sample discussion boards and the like, I notice a lot of attention by investors [pushed by financial journalists!] to march their investments 'up the risk ladder' in the face of low interest rates."

"It is EXACTLY this kind of collective behavior--'chasing returns'--that launches bubbles when yields are so low," he wrote.

A Vanguard spokeswoman said the company didn't comment on flows into individual funds.

-By Ian Salisbury, Dow Jones Newswires; 212-416-2241; [ian.salisbury@dowjones.com](mailto:ian.salisbury@dowjones.com)

(TALK BACK: We invite readers to send us comments on this or other financial news topics. Please email us at [TalkbackAmericas@dowjones.com](mailto:TalkbackAmericas@dowjones.com). Readers should include their full names, work or home addresses and telephone numbers for verification purposes. We reserve the right to edit and publish your comments along with your name; we reserve the right not to publish reader comments.)

(END) Dow Jones Newswires March 09, 2010 11:00 ET (16:00 GMT)