

# THE NASDAQ TECHNOLOGY DIVIDEND INDEX

## A Great Complement to Broad Dividend Portfolios

Just a few years ago technology stocks and dividends were a misnomer in the investment world. However, increases in earnings, cash holdings, and stable levels of debt point to the maturation of the technology sector, thus providing increased returns to shareholders with dividend payments.

Launched on June 20, 2012, the Nasdaq Technology Dividend Index offers exposure to this subset of the investment universe with over four years of live history and back-test data to 2007. It serves as the underlying index for the First Trust Nasdaq Technology Dividend Index ETF (Nasdaq: TDIV).

### BUILDING THE CASE FOR THE TECHNOLOGY SECTOR AS A DIVIDEND PLAY /

The tech dividend story is not limited to a handful of big companies; the entire sector has seen significant growth in dividend payments and was the fastest growing sector of dividends paid in the past ten years. Between 2006 and 2015, the technology sector within the Nasdaq US Benchmark Index has increased its dividend value paid out by 315.85%, with Health Care following next in line at 72.69%.

The technology sector is the clear growth leader for dividends, having had the highest dividend growth rate of all industries going back to 2006. Technology companies weathered the storm of the financial crisis and have come away with strong balance sheets including better cash flows and lower levels of debt.

When compared to other sectors, the gains in technology dividend payments have been much more consistent. As an example, the financial sector experienced rapid increases with a 29% increase from 2004 to 2008, but overall experienced near-zero cumulative dividend growth from 2006 to 2015.

INDUSTRY	CUMULATIVE DIVIDEND GROWTH (2006-2015)
<b>Technology</b>	315.85%
<b>Health Care</b>	72.69%
<b>Oil &amp; Gas</b>	65.59%
<b>Consumer Goods</b>	48.69%
<b>Utilities</b>	36.03%
<b>Industrials</b>	5.16%
<b>Financials</b>	0.03%
<b>Basic Materials</b>	-11.54%
<b>Telecommunications</b>	-26.80%
<b>Consumer Services</b>	-47.62%

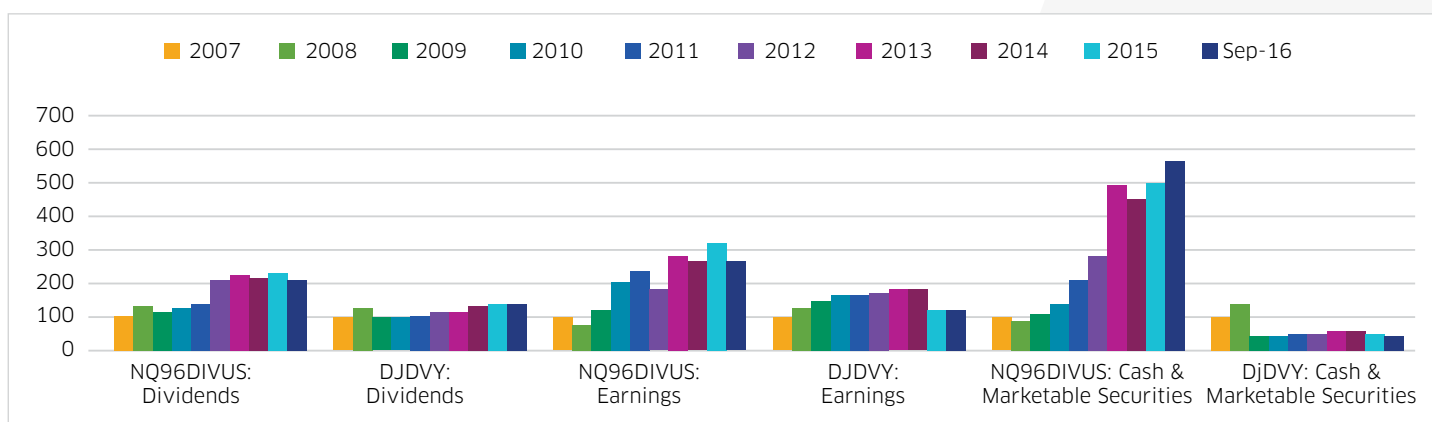
In 2015, Technology was the second highest dividend payer of the ten Industry Classification Benchmark (ICB) industries at \$53B, trailing Financials (\$92B). To put that into perspective, in 2006, Technology was the lowest dividend payer (\$13B).

Technology companies have been better able to maintain and increase dividends, partially due to the consistent cash flows generated from their businesses. Looking at cash and marketable investments on hand, technology is the second largest sector behind financials with \$699 billion. Technology companies have significant cash holdings and minimal creditors, therefore, when compared to other sectors, are in a better position to continue to pay dividends moving forward. This is evidenced by their significantly higher cash-to-debt ratio of 1.41; all other industries have a cash-to-debt figure of 0.59 or below.

ICB INDUSTRY NAME	NO. COMPANIES	CASH (\$B)	DEBT (\$B)	CASH-TO-DEBT
<b>Technology</b>	295	699	494	1.41
<b>Financials</b>	693	2,561	4,353	0.59
<b>Health Care</b>	376	282	604	0.47
<b>Consumer Goods</b>	236	207	665	0.31
<b>Industrials</b>	462	250	864	0.29
<b>Consumer Services</b>	355	206	868	0.24
<b>Oil &amp; Gas</b>	132	99	512	0.19
<b>Basic Materials</b>	99	28	178	0.16
<b>Telecommunications</b>	31	32	348	0.09
<b>Utilities</b>	72	25	503	0.05
<b>TOTAL</b>	2,751	4,390	9,388	0.47

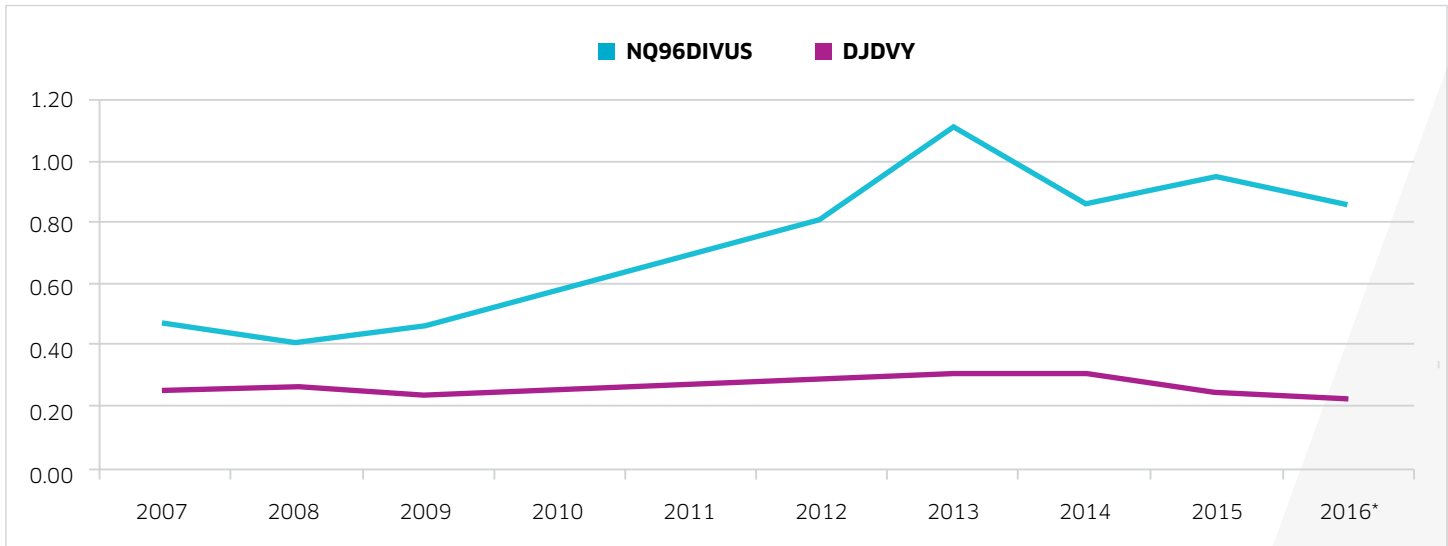
## NASDAQ TECHNOLOGY DIVIDEND INDEX: FUNDAMENTALS /

The Nasdaq Technology Dividend Index (NQ96DIVUS) was created to capitalize on the growing trend of dividend paying technology stocks. The index is comprised of companies classified as either technology or telecommunications as determined by the ICB. The index caps each sector exposure at 80% for technology and 20% for telecommunications and is weighted by dividend value paid out. As of September 2016, the Nasdaq Technology Dividend Index compares much more favorably than other dividend indexes based on index fundamentals. When comparing the Dow Jones US Select Dividend Index (DJDVY) against the Nasdaq Technology Dividend Index, the Nasdaq components have increased paid dividends, earnings, and cash at a far greater pace than the Dow Jones' components.



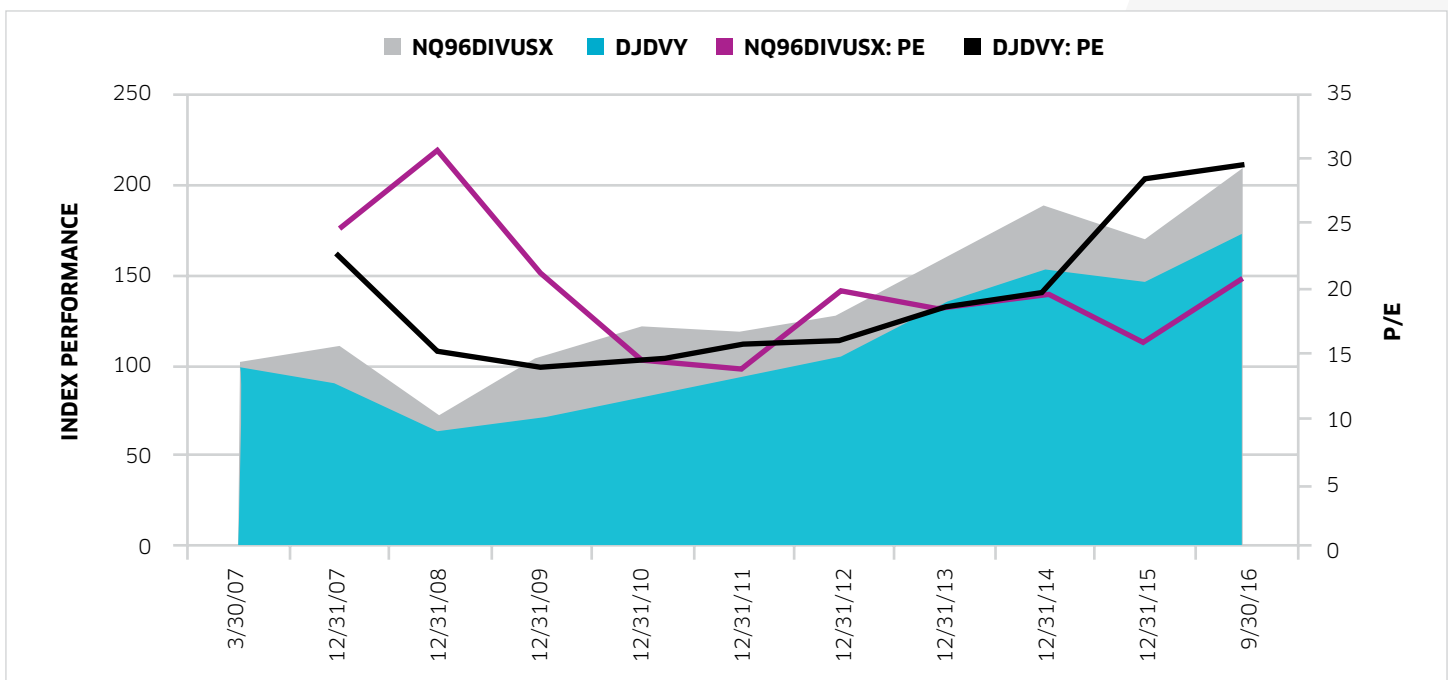
An interesting ratio to examine with a focus on dividends is the cash-to-debt ratio. Strong dividend paying companies will have a higher cash-to-debt ratio and thus are financing more activities with cash versus debt. The components in NQ96DIVUS demonstrate a much more impressive ratio than the DJDVY components. The technology components have been increasing cash reserves at a far greater rate than their debt increases.

## Cash/Debt Ratio



The valuation of NQ96DIVUS, as measured by the P/E ratio, has recently eclipsed DJDVY due in large part to the Nasdaq Technology Dividend Index's massive earnings growth of 175% versus only 21% for the Dow Jones US Select Dividend Index since 2007.

NQ96DIVUS has managed to maintain a fairly flat P/E ratio, suggesting that its constituents have shown robust earnings while maintaining reasonable technology and telecommunications stock prices. It is a different story for the utilities and industrials-heavy DJDVY: its underlying companies have not succeeded at excelling in earnings without inflating stock prices, suggesting that DJDVY might be overvalued. At the same time NQ96DIVUS has outperformed DJDVY by delivering a resilient dividend streamline and increasing in true value.

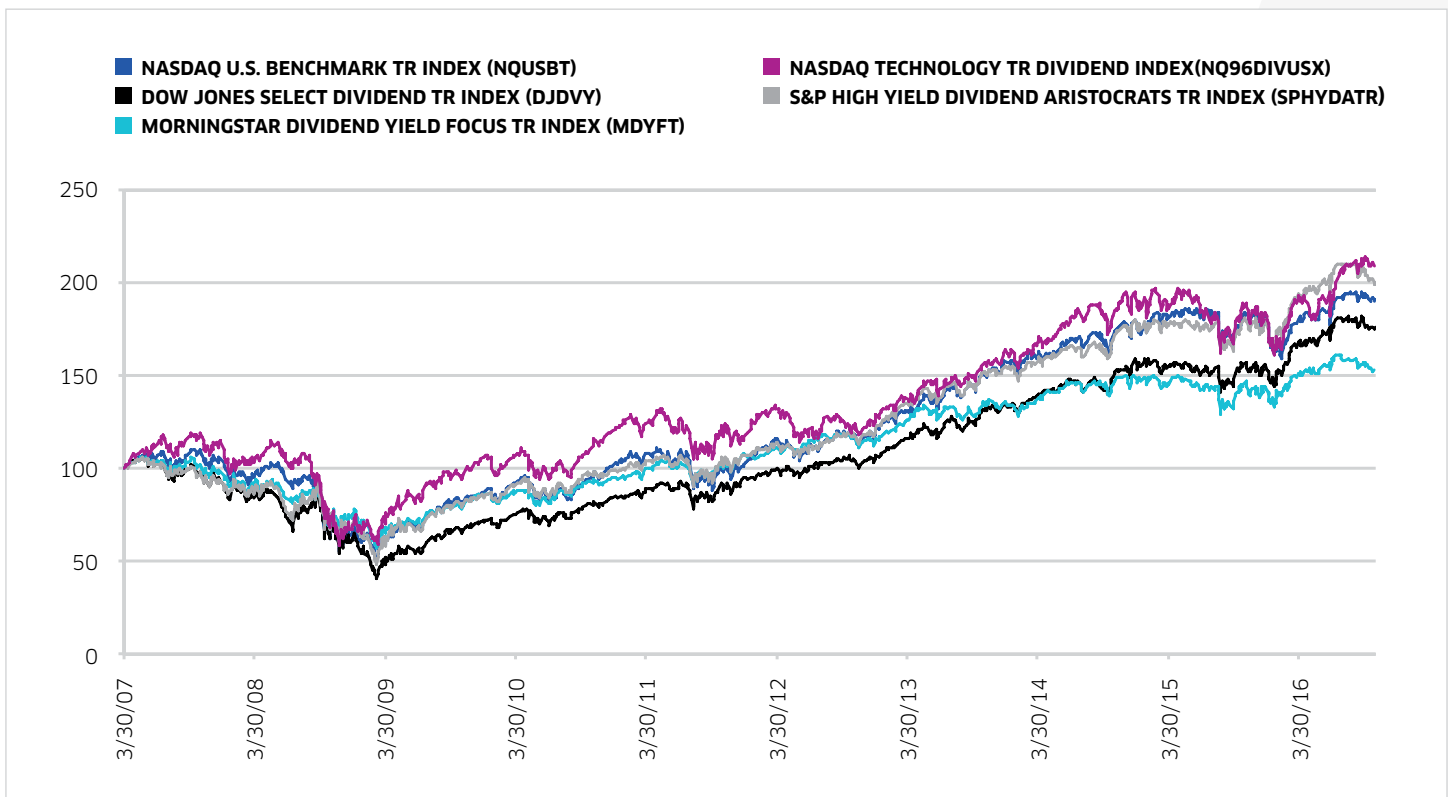


## CURRENT INDEX FUNDAMENTAL TRENDS /

	NQ96DIVUS	DJDVY	MDYFT	SPHYDATR
<b>Average 1-year Dividend Growth</b>	27.8%	1.1%	13.2%	9.2%
<b>Average Market Cap (Billions)</b>	37.18	32.57	53.52	38.08
<b>Average 3-year EPS Growth</b>	67.8%	11.1%	54.7%	24.1%
<b>Average Payout Ratio</b>	81.0%	88.6%	76.0%	58.5%

As of the end of October 2016, looking at the current index fundamental trends one can see the perpetuating claim throughout this piece come to fruition - the Technology Dividend Index has higher dividend growth, higher earnings, similar company size and payout ratio figures as the other dividend indexes.

## INDEX PERFORMANCE /



RETURN	NQUSBT	NQ96DIVUSX	DJDVY	SPHYDATR	MDYFT
<b>2007</b>	5.03%	12.96%	-7.29%	-7.54%	-2.46%
<b>2008</b>	-36.32%	-37.81%	-30.97%	-23.01%	-21.94%
<b>2009</b>	29.26%	50.31%	11.13%	18.94%	11.86%
<b>2010</b>	17.55%	13.55%	18.32%	16.80%	11.48%
<b>2011</b>	0.31%	-2.84%	12.42%	7.63%	13.42%
<b>2012</b>	16.43%	7.10%	10.84%	11.88%	5.65%
<b>2013</b>	33.48%	31.24%	29.06%	30.59%	19.53%
<b>2014</b>	12.46%	16.34%	15.36%	14.27%	8.75%
<b>2015</b>	0.48%	-5.43%	-1.64%	-0.38%	-4.02%
<b>2016*</b>	6.11%	16.13%	14.92%	13.05%	7.69%

VOLATILITY	NQUSBT	NQ96DIVUSX	DJDVY	SPHYDATR	MDYFT
<b>2007</b>	16.77%	18.15%	19.11%	17.61%	16.45%
<b>2008</b>	40.53%	38.73%	47.34%	44.00%	35.04%
<b>2009</b>	27.87%	29.02%	29.44%	33.87%	21.88%
<b>2010</b>	18.61%	18.60%	16.36%	15.89%	13.57%
<b>2011</b>	24.24%	24.17%	19.86%	21.02%	15.85%
<b>2012</b>	13.03%	14.92%	10.07%	11.18%	9.01%
<b>2013</b>	11.36%	11.92%	10.92%	11.12%	10.05%
<b>2014</b>	11.68%	12.17%	10.20%	10.02%	9.40%
<b>2015</b>	15.36%	17.12%	13.79%	13.95%	14.20%
<b>2016*</b>	14.19%	16.46%	12.37%	12.60%	11.39%

CORRELATION TO NQUSBT	NQ96DIVUSX	DJDVY	SPHYDATR	MDYFT
<b>Full Period (2007-2016)</b>	0.932	0.928	0.898	0.933

The Nasdaq Technology Dividend Index demonstrates a higher cumulative total return over the historical period beginning March 30, 2007, through October 31, 2016, when compared to other dividend indexes and the broad market as a whole. Interestingly, the correlation of NQ96DIVUS and other dividend indexes to the Nasdaq US Benchmark is quite close, ranging from 0.898 of the SPHYDATR Index to 0.933 of the MDYFT Index with NQ96DIVUS falling at 0.932.

## TOP TEN COMPONENTS BY WEIGHT /

SYMBOL	COMPANY NAME	CLOSING PRICE	MARKET VALUE (\$B)	INDEX WEIGHT	YIELD
<b>AAPL</b>	APPLE INC.	113.05	6.93	8.36%	1.93%
<b>INTC</b>	INTEL CORP	37.75	6.84	8.25%	2.74%
<b>CSCO</b>	CISCO SYSTEMS INC	31.72	6.56	7.91%	3.08%
<b>MSFT</b>	MICROSOFT CORP	57.6	6.52	7.86%	2.81%
<b>IBM</b>	INTL BUSINESS MACH	158.85	6.50	7.84%	3.63%
<b>QCOM</b>	QUALCOMM INC	68.5	3.53	4.26%	3.19%
<b>TXN</b>	TEXAS INSTRUMENTS	70.18	3.14	3.78%	2.55%
<b>ORCL</b>	ORACLE CORPORATION	39.28	3.10	3.74%	1.49%
<b>TSM</b>	TAIWAN SEMICONDS ADS	30.59	2.19	2.63%	3.27%
<b>STX</b>	SEAGATE TECH ORD SHS	38.55	1.70	2.04%	10.11%

NQ96DIVUS is not weighted by yield, rather by the dollar amount of dividends paid. This weighting methodology focuses on the absolute amount of dividends distributed versus the yield, which takes into account the market driven fluctuations of stock price.

## TECHNOLOGY DIVIDEND AS A COMPLEMENT TO BROAD DIVIDEND INDEXES /

Given the historical growth and strong fundamentals positioning many companies for future dividend payment growth, technology is a great place to start when reviewing dividend strategies. Most broad market dividend indexes include a very limited exposure to the technology sector. This underweight of technology is a result of many major dividend benchmarks, including some owned by Nasdaq, that have a required minimum number of years of dividend payments that many technology companies do not meet. While technology stocks have had competitive yields, any index that is selecting solely on yield will underweight the technology sector.

Below are the sector weights of NQ96DIVUS, DJDVY, MDYFT and SPHYDATR - note the weight of Technology in all other indexes is below 15% (2 of the 3 are less than 4%), which could be compensated by the nearly 80% weight on technology from the Nasdaq Technology Dividend Index. Similarly, the Nasdaq Technology Dividend Index can serve as a complement to other broad dividend indexes in which technology is under represented because of the sector's more recent growth trends

INDUSTRY	NQ96DIVUS	DJDVY	MDYFT	SPHYDATR
<b>Technology</b>	80.70%	3.92%	14.36%	3.35%
<b>Oil &amp; Gas</b>	0.00%	7.65%	18.70%	2.93%
<b>Consumer Goods</b>	0.00%	13.22%	19.53%	15.08%
<b>Health Care</b>	0.00%	3.11%	14.86%	5.63%
<b>Industrials</b>	0.00%	15.61%	4.10%	21.54%
<b>Utilities</b>	0.00%	31.11%	9.17%	10.38%
<b>Basic Materials</b>	0.00%	3.28%	0.07%	6.67%
<b>Telecommunications</b>	19.30%	2.11%	14.69%	2.45%
<b>Consumer Services</b>	0.00%	6.00%	3.10%	7.79%
<b>Financials</b>	0.00%	13.99%	1.43%	24.18%

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## SUMMARY /

The Nasdaq Technology Dividend Index was created to provide a diversifying force in dividend portfolios. With technology as the fastest growing sector by dividends paid since 2006, a historical track record of consistent payments and a strong cash-to-debt ratio, the sector warrants a closer look. Because the technology sector is currently underweighted in broad market dividend indexes, the Nasdaq Technology Dividend index can be paired with other broad market dividend indexes to allow for instant diversification in a dividend portfolio. In conclusion, the Nasdaq Technology Dividend Index can be coupled with other dividend strategies to provide new sources of income paying stocks or used on its own as an index which combines earnings and dividend growth.

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**SOURCE:** Nasdaq Global Indexes Research, Bloomberg, FactSet

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**NOTE:** Performance data is as of October 31, 2016.  
Fundamental data is as of 9/30/2016 unless otherwise noted.  
Dividend growth data is as of 12/31/2015.

## MORE INFORMATION /

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