06/22/2022

VANGUARD DIVIDEND APPREC ETF (VIG)

$140.68 USD

Risk: **Med**

Zacks ETF Rank **1 - Strong Buy**

Fund Type	Style Box - Large Cap Blend
Issuer	VANGUARD
Benchmark Index	S&P U.S. DIVIDEND GROWERS INDEX
Date of Inception	04/21/2006
AUM (million)	$58,605.46
Number of holdings in the ETF	267
Assets in top ten holdings	31.08%
Expense Ratio	0.06%
Dividend Yield	2.03%

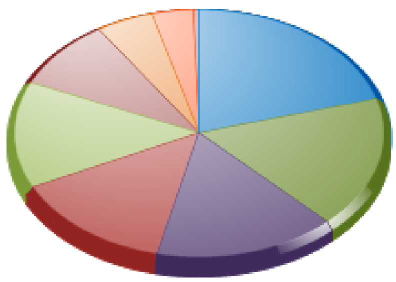
Price Fundamentals of VIG

Current Price	$140.68
52-Week High	$172.21
52-Week Low	$138.64
NAV (05/31/2022)	$153.72
1Yr ETF Ret (06/17/2022)	-5.09%

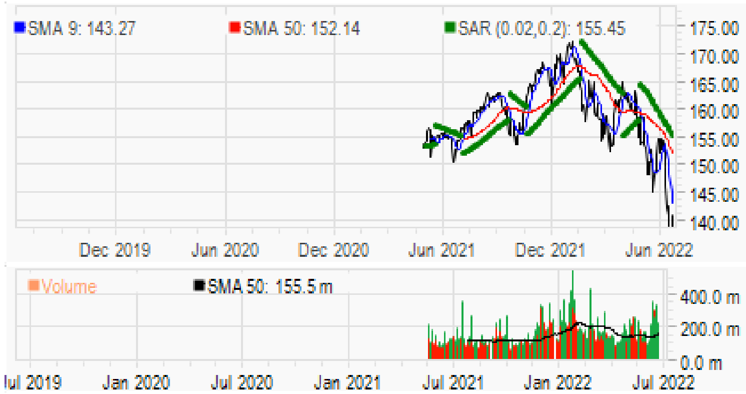
Risk Statistics

Beta (against S&P 500)	0.86
Standard Deviation	21.85%
R^2	94.75%

VIG Sector Weights



Price Chart



Zacks Opinion

Dividend-paying securities are major sources of consistent income for investors when returns from the equity market are at risk. Though these stocks don't offer much price appreciation in a rising stock market, they provide a steady stream of income along with the potential of capital gains. Dividend-focused products offer safety in the form of payouts and stability in the form of mature companies that are less volatile. To control hot inflation levels, the Fed has hiked rates thrice by 0.25%, 0.50% and 0.75% so far in 2022. Meanwhile, uncertainty surrounding the coronavirus outbreak, global economic slowdown and geopolitical tensions might make investors shift to dividend-focused funds, thanks to their low volatility. Also, ongoing tensions between Ukraine and Russia can make the fund look attractive.

Key Points

- Moderately traded U.S. equity ETF
- Exposure to high-quality dividend stocks
- Low expense ratio but modest trading costs

Reasons to Buy

- Stable income and capital appreciation, impact of coronavirus outbreak on U.S. economy

Reasons to Sell

- Dividend stocks trail growth ones in a booming stock market

The data on the front page and all the charts in the report represent market data as of 06/17/2022, while the report's text is as of 06/22/2022

Holdings Breakdown

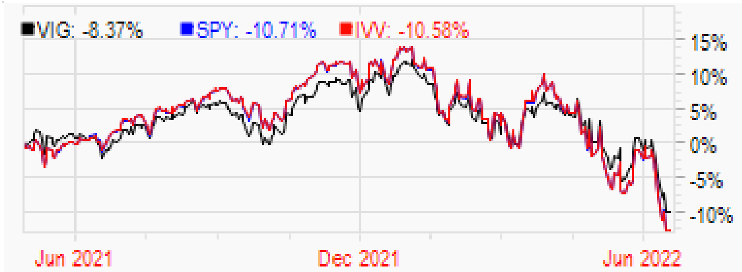
The fund holds 267 stocks in its basket. Microsoft Corporation (4.71%), Johnson & Johnson (3.80%) and UnitedHealth Group Inc. (3.74%) are among the top three holdings in the basket. From a sector look, the ETF has significant exposures to Information Technology (20.6%), Healthcare (17%) and Consumer Staples (15.7%).

Performance

VIG mostly remained on an uptrend since the beginning of 2021 till early-January 2022 before starting to mostly decline (as of Jun 21, 2022). The upside can be attributed to rebounding domestic economy and the Fed's dovish stance. However, weak market sentiments and hawkish Fed might have been weighing on the fund. It has lost 16.8% in the year-to-date frame and 5.1% in a year.

VIG Top 5 Holdings	Weight %
Microsoft Corp.	4.71%
Johnson & Johnson	3.80%
UnitedHealth Group Inc.	3.74%
JPMorgan Chase & Co.	3.28%
Procter & Gamble Co.	3.27%

2-Year Comparative



Investment Objective

VIG seeks to match the performance of the S&P U.S. Dividend Growers Index. The index tracks the performance of a select group of equity securities that have a history of growing their dividends year over year.

Fundamentals	VIG	SPY	IVV
Zacks Rank	1	3	3
Price	$140.68	$374.89	$376.67
AUM (million)	$58,605.46	$341,262.34	$279,420.96
Expense Ratio	0.06%	0.09%	0.03%
Dividend Yield	2.03%	1.60%	1.58%
Assets in top 10	31.08%	28.33%	27.86%
Beta	0.86	1.00	1.00
YTD % Price Change	-16.84%	-20.87%	-20.85%

Analysis

Although a dividend yield of 2.03% is not remarkable, this fund is better suited for those looking for long-term capital appreciation along with income and not just high current yield. Moreover, the fund is one of the cheapest in its space, with an expense ratio of just 6 basis points. As far as liquidity is concerned, the fund has three-month average trading volume of about 1.6 million shares and AUM of $58.61 billion.

Description

Launched in April 2006, Vanguard Dividend Appreciation ETF (VIG) is a passively managed ETF designed to track the performance of stocks with a record of growing their dividends over time.

Detailed Analysis

Dividend-paying companies are stable and mature with solid cash flows that provide greater stability and safety in a volatile environment. As such, dividend-growth ETFs are an excellent option for those looking to invest in such companies and protect their portfolio in a volatile environment. The dividend corner of the broad investing world has been an area to watch lately given falling yields and the prospect of easing money policies.

The huge number of coronavirus-infected domestic cases led to shut down of economic activities thereby, affecting the U.S. economic fundamentals.

Meanwhile, to control hot inflation levels, the Fed has hiked rates thrice by 0.25%, 0.50% and 0.75% so far in 2022. The central bank plans to start reducing its huge $9 trillion balance sheet in June this year.

However, uncertainty surrounding the coronavirus pandemic and a slowdown in the global economic growth might increase the appeal of such funds, as they provide stable income compared to their high-risk counterparts. Also, ongoing tensions between Ukraine and Russia can make the fund look attractive.

Given this, let’s evaluate two alternative funds targeting the dividend space and compare these with VIG.**Alternatives**

iShares Select Dividend ETF (DVY)

The fund has AUM of $20.66 billion and three-month average trading volume of about 1.2 million shares. The fund follows the Dow Jones U.S. Select Dividend Index, which comprises high quality stocks that have a record of paying dividend over five years. It holds 99 securities in the basket that are widely spread across each security with none holding more than 2.33% of the total assets. The ETF charges 38 basis points in annual fees.

SPDR S&P Dividend ETF (SDY)

This fund provides exposure to 119 U.S. stocks that have been consistently increasing their dividends for at least 20 straight years. The fund tracks the S&P High Yield Dividend Aristocrats Index. The product is spread across a number of securities as each holds no more than 2.19% of the total assets. The product has amassed nearly $19.65 billion in its asset base, while it trades in three-month average volume of about 631,000 shares. It charges 35 basis points in annual fees.

Our View

DVY and SDY are moderately traded, keeping the bid/ask spread modest. Moreover, all three funds are well diversified. However, VIG looks attractive owing to its low expense ratio and higher trading volume.

Glossary

ACTIVE MANAGEMENT: A portfolio management strategy where the manager uses variety of skills and attributes (like top-down approach, bottom-up approach, value investing, growth investing or absolute returns strategy) in the portfolio so that the fund outperforms the benchmark index.

ALPHA: A measure of outperformance that can be calculated as the return of the fund minus the benchmark s return. A positive alpha indicates the fund has outperformed the benchmark index whereas negative alpha means underperformance.

AMERICAN DEPOSITORY RECEIPT: A negotiable non-US security that trades in the US financial market.

AUTHORIZED PARTICIPANTS: An entity chosen by an ETF sponsor to undertake the responsibility of obtaining the underlying assets needed to create an ETF. Authorized participants are typically large institutional organizations, such as market makers or specialists.

AVERAGE YIELD TO MATURITY: The expected rate of return on a fund s portfolio if it is held until the maturity while reinvesting all coupon payments at the bond yield.

BASKET: A portfolio of several stocks or securities that are selected for the inclusion in the fund with different weightings.

BETA: A measure of risk compared to the market benchmark. A beta of less than 1 indicates that the fund is less volatile than the market and vice versa.

BID/ASK SPREAD: The difference between the highest price that a buyer is willing to pay (often called bid price) for the underlying assets of securities of the fund and the lowest price that a seller is willing to accept (often called as offer or ask price) for it.

CONTRARIAN: An investment style that goes against prevailing market trends (i.e. against the thinking of many) by buying assets that are performing poorly and then selling when they perform well.

CREATION UNIT: A set of securities or underlying assets that can be created or redeemed by Authorized Participants for a certain number of ETF shares with the fund or trust. The creation units can vary in size ranging from 25,000 to 600,000 shares each.

DIVIDEND YIELD: A financial ratio that measures how much a company pays out in dividends each year relative to its share price. It can be calculated as annual dividend per share divided by price per share.

EFFECTIVE DURATION: A measure of a fund s interest-rate sensitivity. The longer the duration, the more sensitive is the fund to the changes in interest rates.

ENHANCED INDEXING: An investment idea that attempts to amplify the returns of an underlying asset or the fund with lower tracking error. Enhanced indexing combines elements of both passive and active management.

EXCHANGE TRADED FUND: The fund represents a basket of securities (that typically track an index), and is listed and trades like stocks on an exchange. ETFs can be traded throughout the day in amounts as little as one share.

EXCHANGE-TRADED NOTE: The note is a senior, unsecured, unsubordinated debt issued by a major bank. It has a maturity date and is backed only by the credit of the issuer. The ETN however, do not actually hold any security, instead an issuing bank promises to pay to investors the amount reflected by the index s performance (minus fees).

EXPENSE RATIO: An annual fee that the fund or ETF charge from the investors in order to provide exposure to the underlying asset.

FUND OF FUNDS: A fund that invests in other funds instead of investing directly in stocks, bonds or other securities.

FUNDAMENTAL INDEXING: A type of equity index in which stocks or securities are selected based on fundamental metrics such as revenue, dividend rates, earnings or book value.

INDEX: An imaginary portfolio of securities representing a particular market or a portion of it.

INVERSE ETF: An ETF that provides opposite (inverse) exposure in the underlying index though use of various financial and money market instruments over a specified period of time. This ETF is similar to holding a short position in order to take profit from the falling prices.

INVESTMENT STYLE: A different style of investing such as growth, value and blend in a basket of asset.

LEVERAGED ETF: An ETF that uses various financial instruments to amplify the returns (up to 3 times) of the underlying index over a specified period of time.

LIQUIDITY:	The degree to which an asset or security can be bought or sold in the market without affecting the asset s price. Liquidity is characterized by a high level of trading activity.
MARKET CAPITALIZATION:	Represents the aggregate value of the fund or underlying asset.
NET ASSET VALUE:	Value of an ETF on per share basis and is calculated as total asset minus total liabilities divided by number of shares.
PASSIVE MANAGEMENT:	A portfolio management strategy where the fund is the mirror image of the performance of the benchmark index.
PORTFOLIO TURNOVER:	A percentage of underlying assets bought and sold in a given year.
R-SQUARED:	A measure of correlation with the market benchmark. An R-Squared of 100 indicates perfect correlation of the fund that of market while an R-Squared of 0 indicates no correlation.
SECTOR ROTATION:	A strategy that involves moving from one sector to another by selling the underlying assets or securities of a sector and purchasing securities or assets in another.
SEC YIELD:	A standard yield that the bond funds must pay to its shareholders based on the most recent 30-day period covered by the fund s filings with the SEC.
SHORT ETF:	An investment strategy that offers to take short position in the underlying index through various financial instruments.
STYLE BOX:	A visual representation of the fund, created by Morningstar, to determine risk-return structures of the portfolio. A style box is comprised of nine squares, or categories, that classify securities by size (small, mid and large cap) along the vertical axis and by value, growth and blend characteristics along the horizontal axis.
TARGET DATE FUND:	A fund that invests exclusively in the assets or securities with a certain defined maturity.
TRACKING ERROR:	A measure of how closely a portfolio follows the benchmark index. It is calculated as the difference between the returns of fund portfolio and the benchmark index.
TREASURY INFLATION PROTECTED SECURITIES:	The bonds that are issued by the U.S. Treasury to protect against inflation. These securities pay interest on an inflated-principal amount (principal rises with inflation) and when the securities mature, investors get either the inflation-adjusted principal or the original principal, whichever is greater.
VOLATILITY:	A measure of risk calculated by the annualized daily movement in the fund price. The lower the volatility of the fund the better it is.
VOLUME:	The number of shares traded in the market during a given period of time.
YIELD CURVE:	A line that plots the interest rates of bonds having equal credit quality but differing maturity dates. The yield curve provides an idea of future interest rate change and economic activity. It generally compares the three-month, two-year, five-year and 30-year U.S. Treasury debt
WEIGHTED MATURITY:	The remaining time to maturity of the underlying securities in a portfolio. A fund with a short average maturity is more sensitive to current interest rate fluctuations than one with longer average maturity.

Disclosure

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