A Case For Investing In Two Basic Necessities

**Electricity vs. Water**

(YTD, 1-Year and Average Annualized Total Returns thru 8/22/17)

- **S&P 500 Utilities Index**
- **ISE Water Index**

![Graph showing returns comparison between Electricity and Water](image)

**Source:** Bloomberg. Past performance is no guarantee of future results.

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**View from the Observation Deck**

1. Today’s blog post is an FYI to individuals who invest in electric utility stocks, especially those who buy them with the intent of holding them over a long time horizon.
2. Investors tend to be drawn to utility stocks because their dividend yields can be attractive relative to other income-oriented securities.
3. As of today’s trading session, the yield on the S&P 500 Utilities Index was 3.29%, more than 100 basis points higher than the 2.02% dividend yield on the S&P 500 Index and the 2.18% yield on the 10-year Treasury note, according to Bloomberg. The dividend yield on the ISE Water Index is 1.74%.
4. The National Environmental Education Foundation (NEEF) reports that 77% of the demand for fresh water in the U.S. comes from irrigation and electric power plant cooling, followed by municipal and industrial usage at 20%.
5. Infrastructure spending is a focal point of President Trump’s economic agenda. One of the areas in need of major upgrades is water infrastructure. Water managers in 40 states expect shortages in some portion of their states in the next 10 years, according to the NEEF.
6. As indicated in the chart, the ISE Water Index outperformed the S&P 500 Utilities Index in four of the six time periods.
7. What the chart does not show is how the two indices performed relative to each other on a calendar year basis. From 2001-2016, the two indices posted similar total returns in just three of the 15 calendar years (2004, 2006 and 2007). With respect to the other 12 years, the returns often varied significantly. In 2014, the disparity was 28 percentage points in favor of the S&P 500 Utility Index, according to Bloomberg.
8. For the 15-year period ended 8/22/17, a 50/50 split between the ISE Water Index and the S&P 500 Utility Index would have generated an average annualized total return of 11.85%, according to Bloomberg. For comparative purposes, the average annualized total return on the S&P 500 Index was 8.63%.
9. As of 8/24/17, Bloomberg’s 2017 and 2018 consensus earnings growth rate estimates for the ISE Water Index were 11.04% and 12.86%, respectively, compared to 0.51% and 5.25%, respectively, for the S&P 500 Utilities Index.

This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions and other expenses incurred when investing. Investors cannot invest directly in an index. The S&P 500 Index is a capitalization-weighted index comprised of 500 stocks used to measure large-cap U.S. stock market performance. The ISE Water Index includes companies engaged in water distribution, water filtration, flow technology and other water solutions. The S&P 500 Utilities Index is a capitalization-weighted index comprised of S&P 500 constituents representing the utilities sector.

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