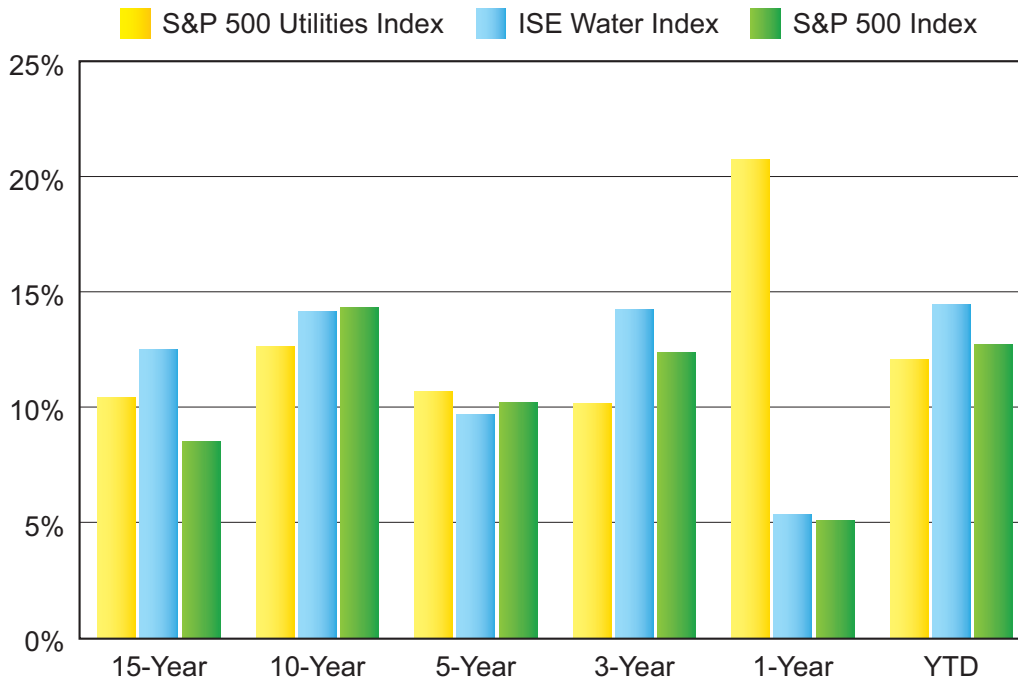


# A Case For Investing In Two Basic Necessities

## Electricity and Water vs. the Broader Stock Market (YTD, 1-Year and Average Annualized Total Returns thru 5/28/19)



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

### 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. Historically speaking, investors have been drawn to utility stocks because their dividend yields can at times be attractive relative to other income-oriented securities, as has been the case over the past decade, in our opinion.
3. What most investors may not know is that electricity and water are intertwined in complex ways via infrastructure, according to the University of Wisconsin College of Engineering. It notes that there can be no water from a tap without electricity, and there is no electricity from a switch without water.
4. The National Environmental Education Foundation 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. As indicated in the chart, the ISE Water Index outperformed the S&P 500 Utilities Index in four of the six time periods.
6. What the chart does not show is how the two indices performed relative to each other on a calendar year basis. From 2004-2018 (15 years), the two indices posted similar (within 2 percentage points) total returns in just three of the 15 calendar years (2005, 2007, 2008). With respect to the other 12 years, the returns often varied significantly. In 2018, the disparity was 12.7 percentage points in favor of the S&P 500 Utility Index, according to Bloomberg.
7. From 2004-2018, the ISE Water Index outperformed the S&P 500 Utility Index in eight of the 15 calendar years, according to Bloomberg.
8. While these two necessities (electricity and water) may be intertwined, the ISE Water Index and S&P 500 Utility Index have demonstrated that they do not move in lockstep over time.

*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 Utilities Index is a capitalization-weighted index comprised of S&P 500 constituents representing the utilities sector. The ISE Water Index includes companies engaged in water distribution, water filtration, flow technology and other water solutions. The S&P 500 Index is an unmanaged index of 500 stocks used to measure large-cap U.S. stock market performance.*

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