

# THE WISDOMTREE CBOE S&P 500 PUTWRITE STRATEGY FUND: A PREMIUM OPPORTUNITY

Tripp Zimmerman — Director, Research  
03/01/2016

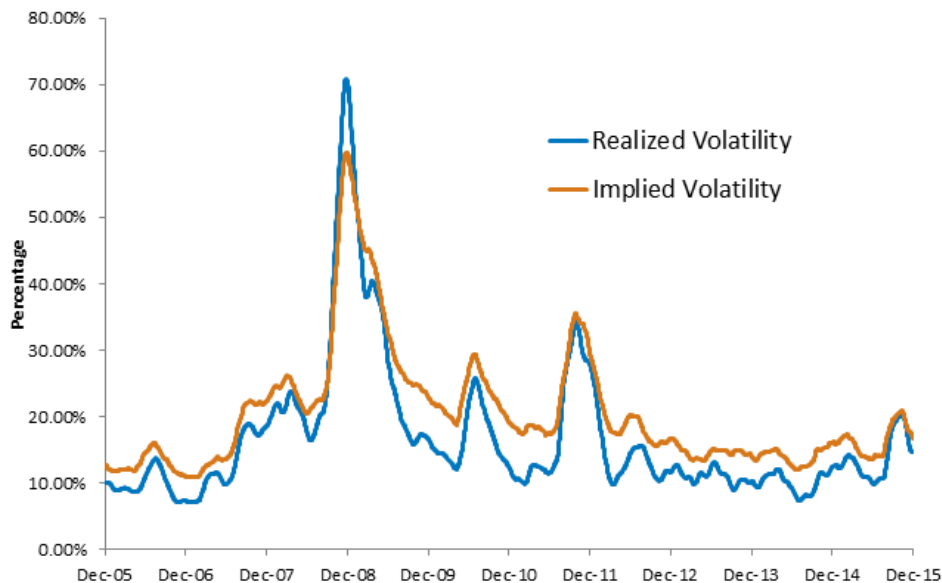
In a [previous blog post](#), we introduced The [WisdomTree CBOE S&P 500 PutWrite Strategy Fund \(PUTW\)](#), which seeks investment results that, before fees and expenses, generally correspond to the performance of the [CBOE S&P 500 PutWrite Index \(PUT\)](#). In that piece, we showed how historically PUT, the index PUTW is designed to track, had similar returns to the [S&P 500 Index](#) with less [risk](#), and argued that blending the two indexes could offer attractive [risk-adjusted returns](#). Below we will further explain what could be the primary driver of returns for PUTW going forward.

**Investment Strategy** PUTW invests in one- and three-month [Treasury Bills](#) and sells or “writes” S&P 500 Index put options. The number of put options sold is chosen to ensure full collateralization, meaning the total value of the Treasury account must be equal to the maximum possible loss from the final settlement of the put options at expiration. In addition:

- Options are written “[at the money](#)” or at the current level of the S&P 500 Index
- Options are written monthly, instead of quarterly or longer, to help capture more gross premium
- The Fund uses [European style options](#), so they can only be exercised at maturity
- The Fund has a net expense ratio of 0.38%<sup>1</sup>

**A Premium Opportunity** The amount of premiums the Fund receives is tied to the [implied volatility](#) of the S&P 500, or how volatile investors perceive the S&P 500 to be. The higher the implied volatility, the higher the premiums the Fund will receive, and the lower the implied volatility, the lower the premiums. Returns for PUTW will largely be driven by the premiums received, but the Fund returns are also influenced by the returns of the S&P 500 Index. As the Fund doesn’t actually own the underlying securities of the S&P 500 Index, it does not benefit when the price goes up. However, because the Fund is selling [put options](#) on the S&P 500 Index, it will be exposed to downside movement of the S&P 500. But it is important to remember that the premiums the Fund collects, which are driven by implied volatility, seek to help the Fund on the downside, compared to just the S&P 500 Index. And as illustrated below, implied volatility is often higher than realized volatility, allowing the Fund to potentially profit by receiving more premiums for the risk of options being sold.

**S&P 500 Index Volatility: Realized vs.**



Sources: WisdomTree, Bloomberg, 12/31/05–12/31/15. Past performance is not indicative of future results. You cannot invest directly in an index. Index performance does not represent actual fund or portfolio performance. A fund or portfolio may differ significantly from the securities included in the index. Index performance assumes reinvestment of dividends but does not reflect any management fees, transaction costs or other expenses that would be incurred by a portfolio or fund, or brokerage commissions on transactions in fund shares. Such fees, expenses and commissions could reduce returns.

#### Implied

**PUTW?** The [WisdomTree CBOE S&P 500 PutWrite Strategy Fund \(PUTW\)](#) provides: • Ability to potentially profit from implied volatility typically being higher than realized volatility • The premiums the Fund collects may help provide a cushion when the S&P 500 performs negatively • Potential for enhanced risk-adjusted returns • All the [benefits of the ETF structure](#)

<sup>1</sup>The gross expense ratio is 0.44%. The net expense ratio reflects a contractual waiver of 0.06% through 12/31/16.

#### Why Invest in

#### Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. The Fund will invest in derivatives, including S&P 500 Index put options ("SPX Puts"). Derivative investments can be volatile, and these investments may be less liquid than other securities, and more sensitive to the effects of varied economic conditions. The value of the SPX Puts in which the Fund invests is partly based on the volatility used by market participants to price such options (i.e., implied volatility), so increases in the implied volatility of such options will cause the value of such options to increase, which will result in a corresponding increase in the liabilities of the Fund and a decrease in the Fund's NAV. Options may be subject to volatile swings in price influenced by changes in the value of the underlying instrument. The potential return of the Fund is limited to the amount of option premiums it receives; however, the Fund can potentially lose up to the entire strike price of each option it sells. Due to the investment strategy of the Fund, it may make higher capital gain distributions than other ETFs. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

WisdomTree Funds are distributed by Foreside Fund Services, LLC. Foreside Fund Services, LLC, is not affiliated with CBOE and S&P.

The CBOE S&P 500 PutWrite Index is a product of S&P Dow Jones Indices LLC or its affiliates ("SPDJ") and [CBOE], and has been licensed for use by WisdomTree. Standard & Poor's® and S&P® are registered trademarks of Standard & Poor's Financial Services LLC ("S&P"); Dow Jones® is a registered trademark of Dow Jones Trademarks Holdings LLC ("Dow Jones"); and these trademarks have been licensed for use by SPDJI and sublicensed for certain purposes by WisdomTree. CBOE® is a trademark of the Chicago Board Options Exchange, Incorporated, and has been licensed for use by SPDJI and WisdomTree. The WisdomTree CBOE S&P 500 PutWrite Strategy Fund is not sponsored, endorsed, sold or promoted by SPDJI, Dow Jones, S&P, their respective affiliates or the Chicago Board Options Exchange, Incorporated, and none of such parties make any representation regarding the advisability of investing in such product(s), nor do they have any liability for any errors, omissions or interruptions of the CBOE S&P 500 PutWrite Index.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

For more investing insights, check out our [Economic & Market Outlook](#)

View the online version of this article [here](#).

## **IMPORTANT INFORMATION**

**U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.**

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages ([www.msci.com](http://www.msci.com))

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.

You cannot invest directly in an index.

## **DEFINITIONS**

**CBOE S&P 500 PutWrite Index (PUT)** : Measures the performance of a hypothetical portfolio that sells S&P 500 Index (SPX) put options against collateralized cash reserves held in a money market account. The PUT strategy is designed to sell a sequence of one-month, at-the-money, S&P 500 Index puts and invest cash at one- and three-month Treasury Bill Rates. The number of puts sold varies from month to month but is limited so that the amount held in Treasury Bills can finance the maximum possible loss from final settlement of the SPX puts.

**S&P 500 Index** : Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.

**Risk** : Also standard deviation, which measures the spread of actual returns around an average return during a specific period. Higher risk indicates greater potential for returns to be farther away from this average.

**Risk-adjusted returns** : Returns measured in relation to their own variability. High returns with a high level of risk indicate a lower probability that actual returns were close to average returns. High returns with a low level of risk would be more desirable, as they indicate a higher probability that actual returns were close to average returns.

**Treasury** : Debt obligation issued by the U.S. government with payments of principal and interest backed by the full faith and credit of the U.S. government.

**"At the money"** : option's strike price is identical to the price of the underlying security.

**European-style option** : an option that can only be exercised on its expiration date.

**Premium** : When the price of an ETF is higher than its NAV.

**Implied volatility** : The estimated volatility of a security's price. Implied volatility is a way of estimating the future fluctuations of a security's worth. It is backtracked from live option prices with a future maturity date.

**Put options** : an option to sell assets at an agreed price on or before a particular date.