

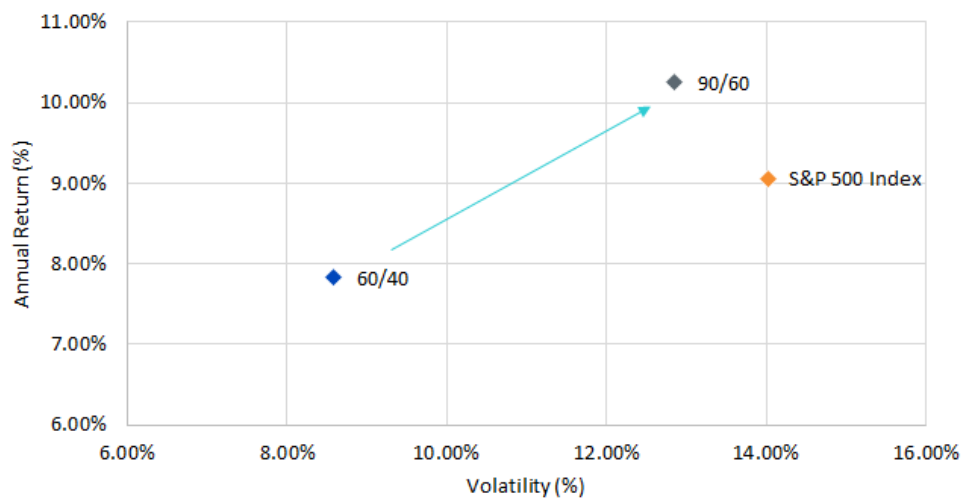
BOOSTING EFFICIENCY WITH LEVERED 60/40

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03/18/2019

When most people think about [leverage](#), they think about it through the lens of added [risk](#). While that's one view, leverage can also be an effective means of preserving a higher [Sharpe ratio](#) in a portfolio while seeking higher absolute returns. In our view, leverage can be a powerful tool for boosting the efficiency of portfolios, even during potentially [volatile](#) markets.

Take the standard 60% equity/40% bond portfolio (60/40)¹, for instance. Historically, the 60/40 portfolio has produced a higher Sharpe ratio than that of 100% equities (0.62 vs. 0.50).² If investors were to lever a 60/40 portfolio by 1.5, the resulting 90/60 portfolio³ could potentially achieve equity-like returns while maintaining the diversification benefit of the bond allocation. Figure 1 below shows this exact story. Looking at this analysis back to 1991, a 90/60 portfolio funded by [1–3 Month Treasury Bills](#) produced a higher return and had lower volatility than the [S&P 500 Index](#).

Figure 1: Levering a Higher Sharpe Portfolio



Sources: WisdomTree, Bloomberg. Returns from 12/31/1991 to 12/31/2018. Past performance is not indicative of future results. You cannot invest directly in an index.

The [WisdomTree 90/60 U.S. Balanced Fund \(NTSX\)](#) seeks to apply 1.5x accounting leverage to a traditional 60/40 portfolio to create exposure equal to 90% equities, 60% bonds. This exposure is created by investing 90% of Fund assets in equities and 10% in short-term fixed income. The 60% bond exposure is achieved by overlaying Treasury [futures contracts](#) to achieve the net 90/60 target. Interestingly, in its limited history, NTSX was able to protect against an equity downdraft while keeping up with a market rally.

While many investors understand the strategy conceptually, looking at live returns provides some extremely instructive use cases. The most recent equities drawdown, which was followed by a post-Christmas rally, is a clear example of this.

When equities, as proxied by the S&P 500 Index, fell by 19% in late 2018, NTSX fell by only 16% due in large part to the bond exposure in the Fund (figure 2). When equities rallied after Christmas, NTSX kept up in performance. NTSX returned 15%, keeping up with SPY (16.4%) from 12/24/18 to 2/6/19 (figure 3).

Figure 2: Peak to Trough in the Latest Correction in 2018

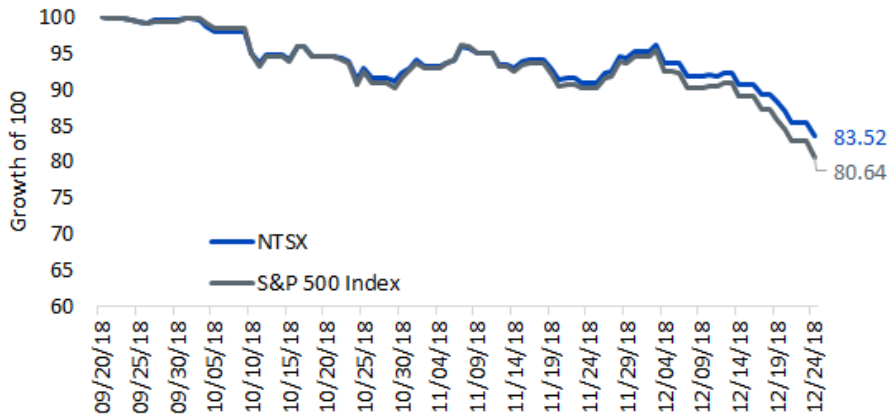
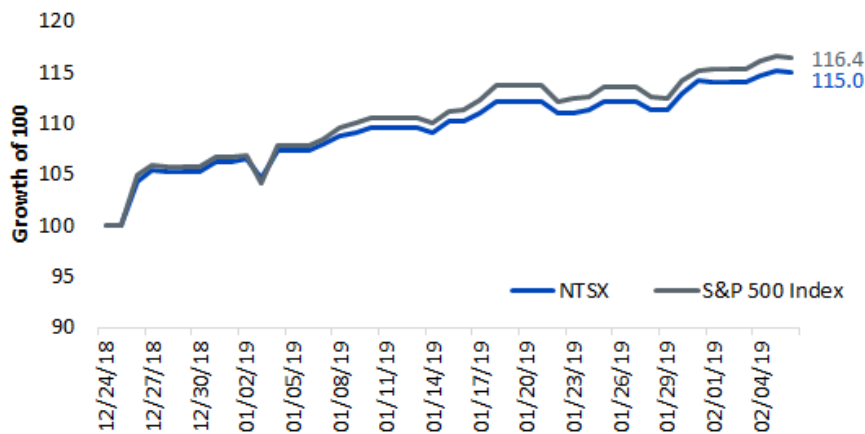


Figure 3: Post-Christmas Rally (12/24/18–2/6/19)



Source: WisdomTree. Figure 2 from 9/20/18 to 12/24/18. Figure 3 from 12/24/18 to 2/6/19.

Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Performance data for the most recent month-end is available at wisdomtree.com.

WisdomTree shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Total returns are calculated using the daily 4:00 p.m. EST net asset value (NAV). Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where Fund shares are listed. Market price returns do not represent the returns you would receive if you traded shares at other times.

For standardized performance of NTSX, please click [here](#).

In our view, NTSX provides investors with the potential to boost returns while achieving better overall portfolio diversification. Despite an increase in volatility, we believe this approach provides investors with a powerful tool to enhance their asset allocation and free up capital for other, less correlated investments.

¹60%/40% represented by monthly blend of 60% to the [S&P 500 Index](#) and 40% to the [Bloomberg Barclays U.S. Aggregate Index](#).

²Sharpe ratio evaluated by looking at risk-adjusted returns of a 60/40 portfolio from 12/31/1991 to 12/31/2018.

³A 90% equity/60% bond portfolio takes a 60/40 monthly rebalanced portfolio levered 1.5 times, funded with 50% cost to 1–3 Month Treasury Bills as proxied by the [Bloomberg Barclays U.S. 1-3 Month Treasury Bill Index](#).

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There are risks associated with investing, including possible loss of principal. While the Fund is actively managed, the Fund's investment process is expected to be heavily dependent on quantitative models and the models may not perform as intended. Equity securities, such as common stocks, are subject to market, economic and business risks that may cause their prices to fluctuate. The Fund invests in derivatives to gain exposure to U.S. Treasuries. The return on a derivative instrument may not correlate with the return of its underlying reference asset. The Fund's use of derivatives will give rise to leverage, and derivatives can be volatile and may be less liquid than other securities. As a result, the value of an investment in the Fund may change quickly and without warning, and you may lose money. Interest rate risk is the risk that fixed income securities, and financial instruments related to fixed income securities, will decline in value because of an increase in interest rates and changes to other factors, such as the perception of an issuer's creditworthiness. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

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You cannot invest directly in an index.

DEFINITIONS

Leverage : Total assets divided by equity. Higher numbers indicate greater borrowing to finance asset purchases; leverage can tend to make positive performance more positive and negative performance more negative.

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.

Sharpe ratio : Measure of risk-adjusted return. Higher values indicate greater return per unit of risk, specifically standard deviation, which is viewed as being desirable.

Volatility : A measure of the dispersion of actual returns around a particular average level. .

1-3 month U.S. Treasury Bill : A short-term debt obligation backed by the U.S. government with a maturity of less than 3 months.

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.

Futures/Futures Contract : Reflects the expected future value of a commodity, currency or Treasury security.

Bloomberg U.S. Aggregate Bond Index : Represents the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, as well as mortgage and asset backed securities.

Bloomberg Barclays U.S. Treasury Bills 1-3 Month TR Index Value Unhedged : This index tracks the U.S. Treasury-bill market with maturities within the one through three month range.