TACTICAL HEDGING OF FOREIGN CURRENCY RISK VIA U.S. DOLLAR ETFS

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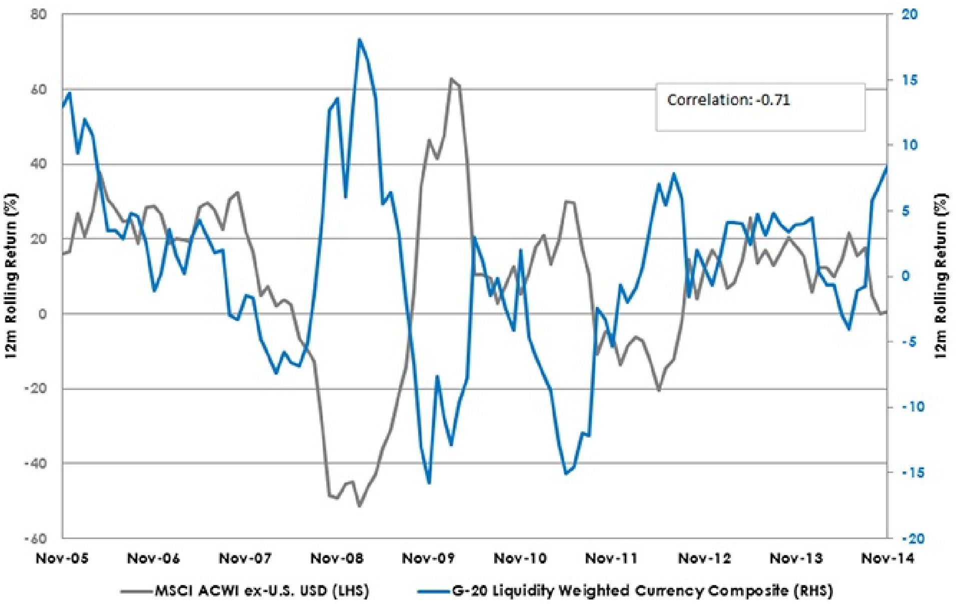
01/14/2015

For many investors, currency investing and risk have not historically been key determinants of their asset allocation decisions. However, with the proliferation of globally allocated portfolios, many investors are seeking to identify not only which asset classes appear attractively priced, but which currencies may offer opportunities as well. The rapid adoption of currency-hedged equity products can be seen as a logical byproduct of this trend. For many investors, motivations for investing abroad are to capture attractive valuations in underlying asset prices and enhance diversification. Unfortunately, currency fluctuations often represent an unwanted source of volatility or drag on performance. Should our theory of continued dollar strength persist in 2015, investors should consider bullish dollar positions as one way to help reduce risk. By incorporating a bullish dollar strategy into a portfolio, investors can selectively hedge currency risk or use it as a tactical way to benefit from a rise in the U.S. dollar. A distinct benefit we see compared to currency-hedged equity strategies is that investors are able to maintain legacy exposures while reducing currency risk. As we show in the chart below, over the last 10 years, the value of the dollar has exhibited a strong negative correlation (-0.71) with the value of unhedged international equity positions.[1] During periods of market stress, risky assets underperformed, and the value of the dollar has tended to strengthen. For investors interested in reducing the volatility of their portfolios, blending dedicated currency strategies to international equity positions could make sense. **Rolling Performance of International Equities & the U.S. Dollar 12-month Rolling Returns: MSCI ACWI ex-U.S. vs. Citi G-20 Liquidity Weighted Currency Index (RHS), 11/30/14**



Source: Bloomberg, as of 11/30/14. Past performance is not indicative of future results. You cannot invest directly in an index.

For definitions of terms and Indexes in the chart, visit our glossary. **Mechanics of Dollar Bull Currency Strategies** While many investors understand the impact of currencies on their portfolios, they may not fully understand how to allocate to dedicated currency strategies as part of the asset allocation process. In WisdomTree's approach to the asset class, our currency strategy Funds are structurally no different from our equity or fixed income Funds. A dollar bullish strategy is created through the combination of short-term Treasury bills or repurchase agreements and forward currency contracts that sell foreign currencies against the U.S. dollar. With the short-term fixed income positions serving as collateral, investors gain exposure to currency markets on a one-to-one notional basis. For investors concerned about currency risk, strategies such as the WisdomTree Bloomberg U.S. Dollar Bullish Fund (USDU) could prove beneficial. [1]Sources: Bloomberg, Citigroup, WisdomTree, as of 11/30/14.

Important Risks Related to this Article

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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.

Valuation : Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.

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

Bullish : a position that benefits when asset prices rise.

Hedge : Making an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as a futures contract.

Negative correlation : Indicated by a tendency of two series of data to move in opposite directions. Shown in the chart (in the red box), the USD-to-GBP exchange rate is trending downward while the FTSE 100 Index is trending upward.

Unhedged : Strategy that includes the performance of both the underlying asset as well as the currency in which it is denominated. The performance of the currency can either help or hurt the total return experienced.

Short-term treasury bills : a debt obligation of the U.S. government with an original maturity of less than one year.

Repurchase agreement : a short-term investment similar to a money market security.

Forward currency contracts : A forward contract in the forex market that locks in the price at which an entity can buy or sell a currency on a future date.

Notional : The dollar value of the derivative contract.