
CELEBRATING THE THREE-YEAR ANNIVERSARY OF THE SIEGEL-WISDOMTREE MODEL PORTFOLIOS

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12/13/2022

This article is relevant to financial professionals who are considering offering model portfolios to their clients. If you are an individual investor interested in WisdomTree ETF Model Portfolios, please inquire with your financial professional. Not all financial professionals have access to these Model Portfolios.

November 30, 2022, marked the three-year anniversary of the [Siegel-WisdomTree Model Portfolios](#), so it seems an appropriate time for an update.

Before we dive in, let's remind ourselves of the investment mandates we were solving for when we built these Models back in 2019.

First, most investors have four common investment objectives for their investment portfolios (though each person's "weighting" to an objective may differ):

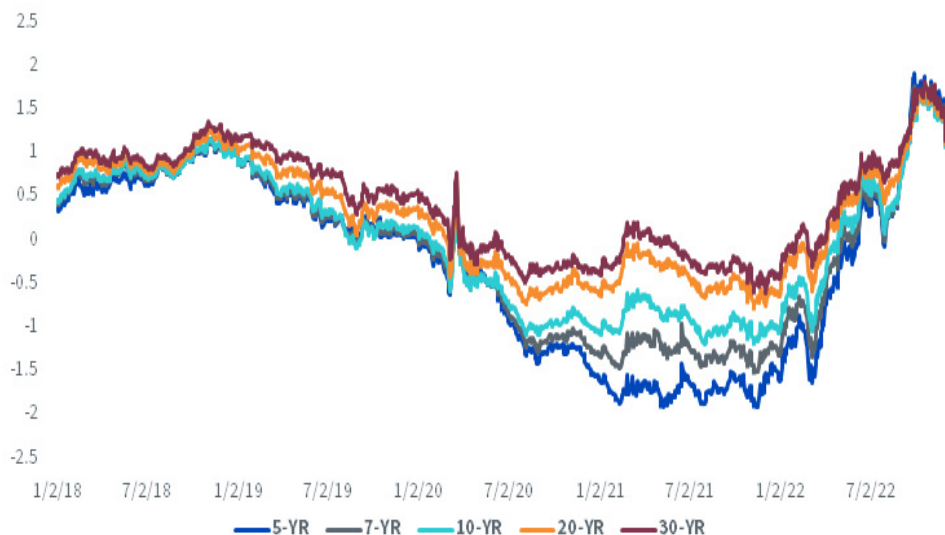
1. Generate sufficient current income to maintain or improve their current lifestyle
2. Not outlive their money (i.e., make sure the portfolio lasts at least as long as they do)
3. Ensure that family legacy or impact/philanthropic goals can be met
4. Minimize fees and taxes along the way

These common objectives face two primary challenges as we look out over the investment horizon.

1. Lower interest rates: The [Fed's](#) aggressive rate [tightening](#) policy (after remaining too loose for far too long, in our opinion) has resulted in a rise in interest rates, at both the [nominal](#) and [real yield](#) levels.

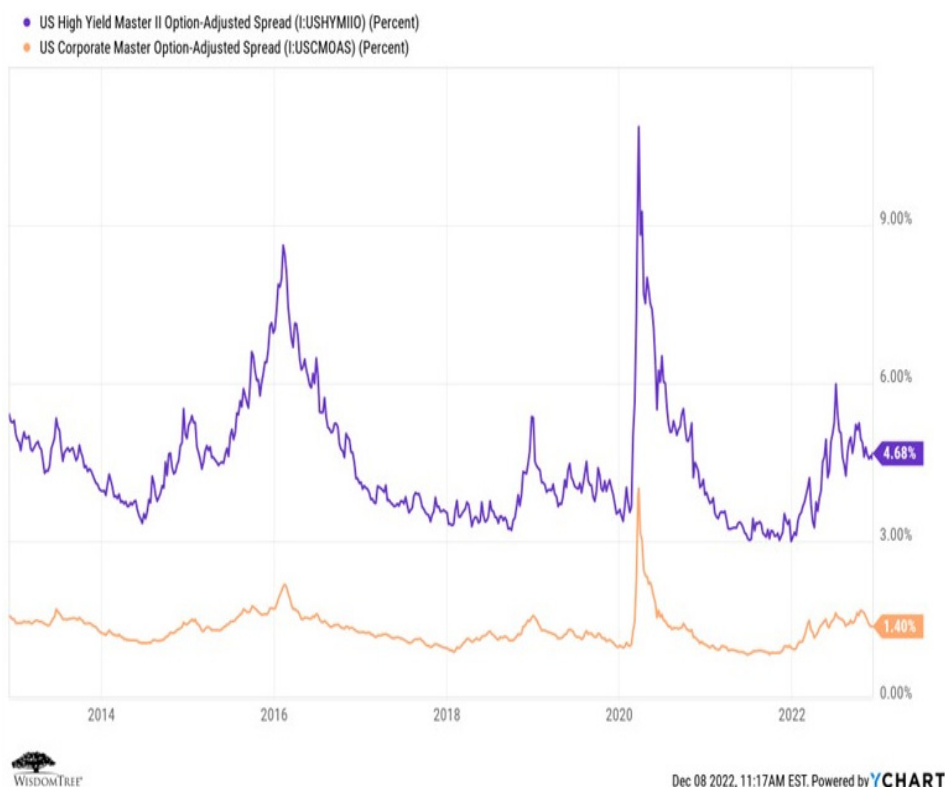
Currently, Treasury real yields (the nominal rate minus the inflation rate) are positive—but still fairly low—across the maturity spectrum.

U.S. Real Treasury Yields (%)



Source: Treasury.gov, data through 12/7/22. Past performance does not guarantee future results.

At the same time, [credit spreads](#) have widened to slightly to elevated levels relative to history.



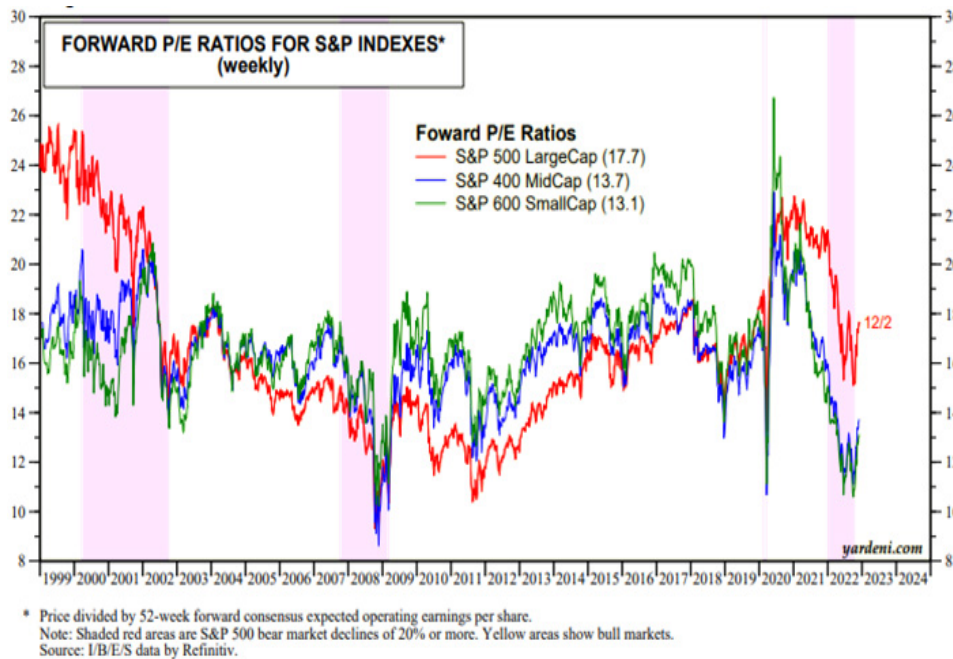
Dec 08 2022, 11:17AM EST. Powered by YCHARTS

Source: Ycharts, 10-year data through 12/7/22. You cannot invest in an index and past performance does not guarantee future results.

The implication is that while “there is income back in [fixed income](#),” we believe it will remain difficult to generate sufficient current income from a fixed income portfolio to maintain or improve current lifestyles, without taking unwanted additional risk (i.e., increased [duration](#) or [credit risk](#)).

2. Lower forecasted equity returns: The potential return on any investment is at least partly a function of what you pay for it today. The year-to-date market declines have brought equity market valuations down to still elevated but slightly more reasonable levels by historical standards (and they appear more attractive in [small-cap](#), [mid-cap](#) and [value](#) stocks). Our own estimates for the [S&P 500 index](#) are for roughly 5% real return, versus an historical real return rate of 6.5%–6.7%. Given valuations, there is potential for higher real returns in small-cap and

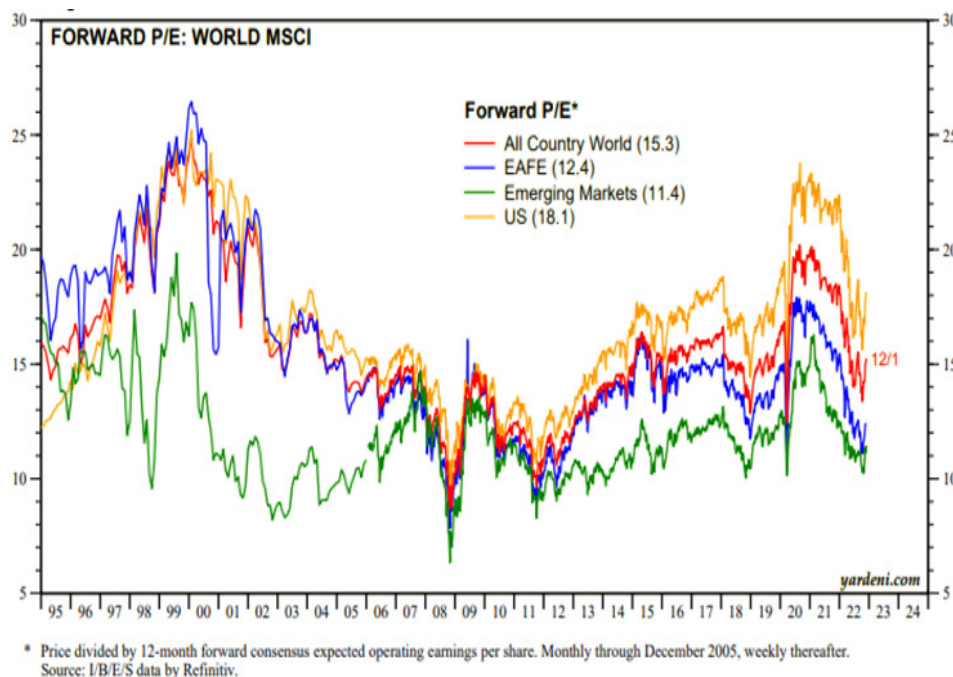
value stocks.



Source: Yardeni Research, as of 12/2/22. You cannot invest in an index and past performance does not guarantee future results.

For definitions of indices and terms in the chart above, please visit the [glossary](#).

We see similar [valuation](#) declines across all major global markets—this is a “nervous” time for equity investors, but valuations suggest that patient investors may be rewarded more now than in recent history for taking on non-U.S. equity risk.



Source: Yardeni Research, as of 12/1/22. You cannot invest in an index and past performance does not guarantee future results.

For definitions of indices in the chart above, please visit the [glossary](#).

The implication is that, while currently [volatile](#), we believe the equity markets remain the best opportunity for building long-term value within a portfolio—that is, improving the longevity profile of the portfolio (reducing the risk of running out of money before you die and increasing the odds of being able to leave a legacy).

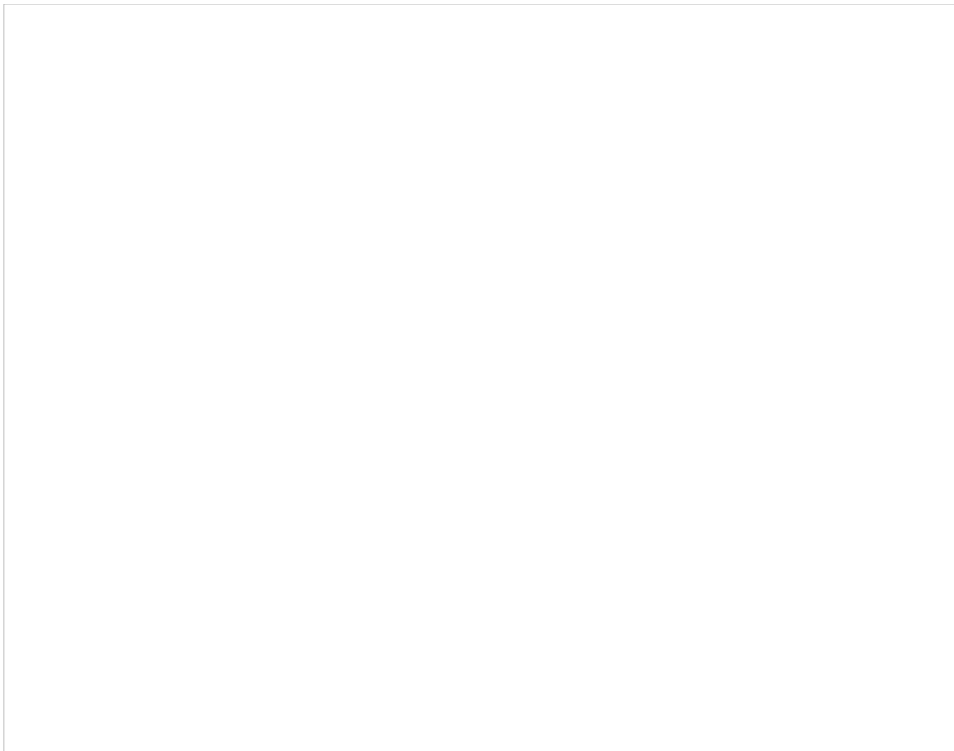
Finally, and while we do not suggest this will always be the case, this has been a bad year for the traditional [“60/40” portfolio](#), as bonds have failed to provide the hedge to equity risk they historically delivered.



So, the question remains—how can we build a “better mousetrap” than the traditional 60/40 portfolio that can potentially address most investors’ objectives in the face of current and expected future market environments? Fortunately, there are things we can do.

Drawing on the research of Professor Jeremy Siegel of the Wharton School (a since-inception strategic investment advisor to WisdomTree), we know that, over a reasonable time horizon, stocks perform better than bonds, and even the worst historical periods for stocks were better than those of either bonds or cash.

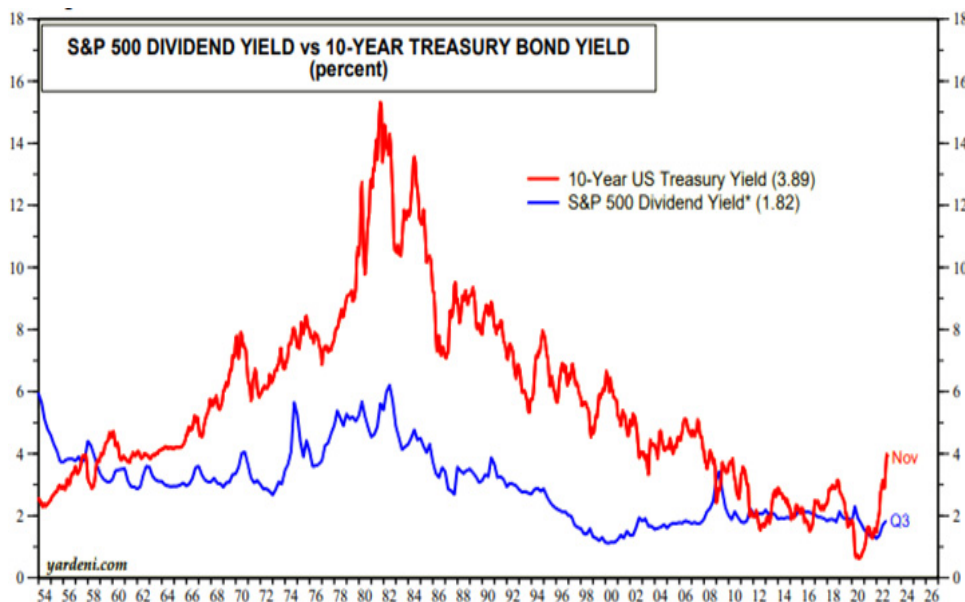
Maximum and Minimum Returns 1802–2020



The current [dividend yield](#) from the S&P 500 is slightly less than half the nominal 10-Year Treasury yield. We suspect, however, that Treasury yields:

- a) do not have significantly more upside potential (maybe to 4%–5%), and
- b) will be highly volatile over the medium term.

We believe equity dividend yields are more sustainable as they represent a return on real assets. Further, there has been a distinct investor “rotation” toward dividend, value and [quality](#) stocks as we head into uncertain economic times—a trend we believe will continue. In addition, equities hold the potential for upside total return, while bonds do not (if held to maturity).



* S&P 500 four-quarter trailing dividends per share divided by quarterly closing value of the S&P 500 index.
Source: Standard & Poor's and Board of Governors of the Federal Reserve System.

Source: Yardeni Research. 10-Year Treasury yield as of 11/30/22. S&P 500 index dividend yield as of 9/30/22. You cannot invest in an index and past performance does not guarantee future results. Dividends are not guaranteed and can fluctuate.

The Siegel-WisdomTree Model Portfolios

It was with these facts on the ground that, in collaboration with Professor Siegel, we constructed the Siegel-WisdomTree Model Portfolios—a **Global Equity** Model and the flagship **Longevity** Model, which is explicitly our attempt to improve on the traditional 60/40 portfolio:

1. A targeted (but not fixed) 75% allocation to yield-focused equities to improve current income generation, the longevity profile and the legacy potential of the overall portfolio (Investor Objectives #1, #2 and #3). The yield-focused nature of the selected equity securities means they tend to have a lower equity [beta](#) profile.
2. A targeted (but not fixed) 25% fixed income allocation constructed for quality income generation in a risk-controlled manner and to function as an appropriate equity risk hedge (Investor Objective #1).
3. The portfolio is constructed entirely with ETFs, to potentially optimize fees and taxes (Investor Objective #4).

When we say “targeted but not fixed” allocations, it simply means we can deviate on a marginal basis as market conditions change. Currently the portfolio’s allocation is approximately 71/23/6, with a 6% “alternatives” allocation to managed futures and commodities (funded equally from equities and fixed income).

We built the Global Equity Model on the same principles, but in recognition that many advisors prefer to manage their own fixed income portfolios and/or want to create different risk profile portfolios than our suggested 75/25.

The potential results of our asset allocation, portfolio construction and security selection decisions are:

1. Improved current income generation
2. A better longevity profile (i.e., reduced short-fall risk)
3. Better potential for funding legacy objectives
4. An expected slightly higher standard deviation than a traditional 60/40 portfolio (i.e., the investor and advisor accept slightly higher short-term volatility in exchange for increased current income and a better longevity profile, or, in other words, slightly increasing one measure of portfolio risk, volatility, in exchange for improving a different measure of portfolio risk, longevity)

We launched these Models in November 2019, so they now have three years of live performance, under fairly extreme market conditions (in both directions) and (as of 11/30/22), they have performed as expected both from a total return and a yield perspective.

Model Portfolio Performance	Inception Date	Cumulative Performance as of 11/30/2022			Annualized Performance as of 11/30/2022			
		1 Month	3 Months	YTD	1 Year	3 Year	5 Year	Since Inception
Sigel-WisdomTree Global Equity (NAV)	11/30/19	8.09%	5.71%	-7.05%	-1.66%	6.34%		6.33%
Sigel-WisdomTree Global Equity (MKT)		8.54%	6.36%	-6.62%	-1.39%	6.46%		6.46%
ACWI Value		7.83%	6.83%	-5.31%	0.59%	5.33%		5.32%
Sigel-WisdomTree Longevity (NAV)	11/30/19	6.61%	3.89%	-7.68%	-3.62%	4.53%		4.52%
Sigel-WisdomTree Longevity (MKT)		6.88%	4.38%	-7.39%	-3.43%	4.58%		4.58%
75% ACWI Value, 25% BBG U.S. Aggregate Bond Index		6.79%	4.65%	-7.01%	-2.72%	3.66%		3.66%
60% ACWI Value, 40% BBG U.S. Aggregate Bond Index		6.17%	3.32%	-8.08%	-4.73%	2.55%		2.55%

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.

Model 12-month yield is calculated using the weighted average trailing 12-month distribution yields of the Fund constituents. Funds inception less than 12 months do not have a trailing 12-month dividend yield.

Model Expense Ratio refers to the weighted average expense ratios of the Fund constituents.

The Sigel-WisdomTree Longevity Model Portfolio seeks to address increasing longevity by shifting the focus to potential long-term growth through a higher stock allocation versus more traditional 60/40 portfolios.

Jeremy Siegel serves as Senior Investment Strategy Adviser to WisdomTree Investments, Inc., and its subsidiary, WisdomTree Asset Management ("WTAM" or "WisdomTree"), and serves on the Asset Allocation Committee of WisdomTree, which develops and rebalances WisdomTree's model portfolios. In serving as a consultant to WisdomTree in such roles, Mr. Siegel is not attempting to meet the objectives of any person, does not express opinions as to the investment merits of any particular securities, and is not undertaking to provide and does not provide any individualized or personalized advice attuned or tailored to the concerns of any person.

For standardized returns and expense ratios for each underlying fund please click [here](#).

Conclusion

We launched the Sigel-WisdomTree Model Portfolios in an attempt to address what we believe are some of the primary issues and conditions that investors will face in the foreseeable future. Our view, simply, is that the traditional 60/40 portfolio will face significant headwinds in meeting investor objects as we move through this decade and the next. We believe we have succeeded in constructing a "better mousetrap," and we wish these Models a very happy third birthday. Financial advisors who register on the WisdomTree website can learn more about these Models, and how to successfully position them with end clients via our [Model Adoption Center](#).

Important Risks Related to this Article

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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.

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

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You cannot invest directly in an index.

DEFINITIONS

Federal Reserve : The Federal Reserve System is the central banking system of the United States.

Fed tightening : Refers to the Federal Reserve enacting monetary policies that have the overall impact of reducing the availability of credit, which is widely thought to have the potential to slow economic growth.

Nominal interest rate : Interest rate that does not account for the impact of inflation.

Real yield : the annual interest rate that an investor demands for holding a bond to maturity including the impact of inflation.

Credit spread : The portion of a bond's yield that compensates investors for taking credit risk.

Fixed income : An investment security that provides a return in the form of fixed periodic payments and the eventual return of principal at maturity.

Duration : A measure of a bond's sensitivity to changes in interest rates. The weighted average accounts for the various durations of the bonds purchased as well as the proportion of the total government bond portfolio that they make up.

Credit risk : The risk that a borrower will not meet their contractual obligations in conjunction with an investment.

Small caps : new or relatively young companies that typically have a market capitalization between \$200 million to \$2 billion.

Mid-Cap : Characterized by exposure to the next 20% of market capitalization (after the top 70% have been removed) within the Value, Blend or Growth style zones with the majority of the fund's weight.

Value : Characterized by lower price levels relative to fundamentals, such as earnings or dividends. Prices are lower because investors are less certain of the performance of these fundamentals in the future. This term is also related to the Value Factor, which associates these stock characteristics with excess returns vs the market over time.

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.

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.

60/40 Portfolio : A portfolio of 60% equities and 40% fixed income.

Dividend yield : A financial ratio that shows how much a company pays out in dividends each year relative to its share price.

Quality : Characterized by higher efficiency and profitability. Typical measures include earnings, return on equity, return on assets, operating profitability as well as others. This term is also related to the Quality Factor, which associates these stock characteristics with excess returns vs the market over time.

Beta : A measure of the volatility of a security or a portfolio in comparison to a benchmark. In general, a beta less than 1 indicates that the investment is less volatile than the benchmark, while a beta more than 1 indicates that the investment is more volatile than the benchmark.