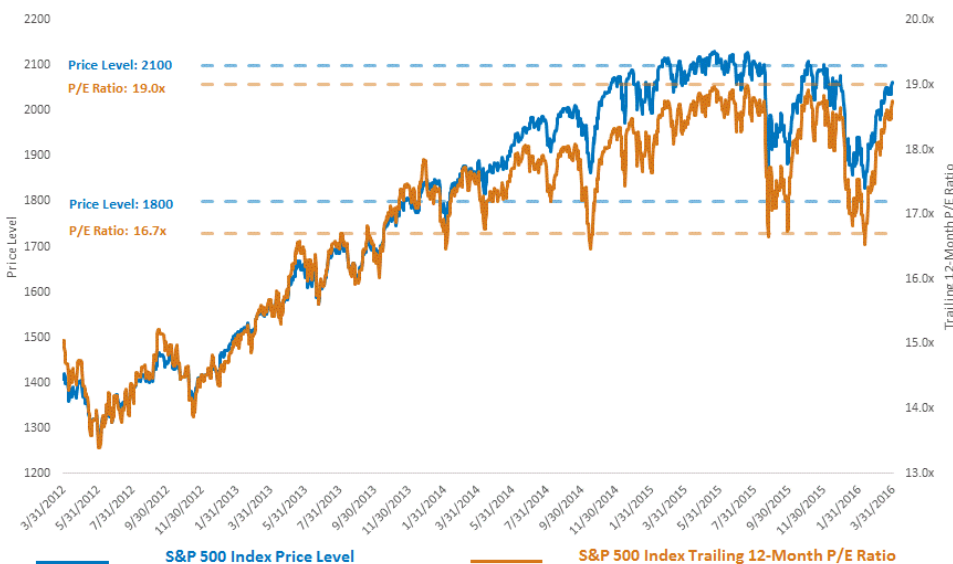


HOW TO NAVIGATE A RANGE BOUND MARKET

Luciano Siracusano — Chief Investment Strategist
04/06/2016

Back on February 9, with the [S&P 500 Index](#) trading at 1830 and the [Volatility Index \(VIX\)](#),—which measures fear in the market—soaring towards 30,¹ I was a guest on CNBC. When asked to comment on where I felt the market was headed, I said I thought it would rebound and continue to trade in a range between 1800 and 2100. With Friday's close on the S&P 500 of 2070, I think the market will soon hit up against the upper bound of that trading range and enter a new period of turbulence as we go deeper into the second quarter. The S&P 500 has been trading water for the last two years. There have actually been two ranges, bound by two price points: approximately 1800 and 2100 on the [S&P 500 Price Index](#), and on a [trailing price-to-earnings \(P/E\) ratio](#) roughly 16.7x at the lower bound and 19.0x at the upper bound, based on Bloomberg ratios. **S&P 500 Index Has Been Trading in Distinct Ranges Recently**



Source: Bloomberg, with data from 3/31/2012 to 3/31/2016. You cannot invest directly in an index. Past performance is not indicative of future results.

What Could Drive the S&P

500 Higher from Here? Given that the [operating](#) and [net profit margins](#) on the S&P 500 peaked several quarters ago, earnings growth is unlikely to come from meaningful [margin expansion](#). And with the S&P 500 ending the quarter trading at 18.7x, it is also unlikely that [P/E multiple expansion](#) will drive the market meaningfully higher. If margin expansion, multiple expansion or even [share buybacks](#) are unlikely to drive earnings growth from this point forward, then the only major driver left is a pickup in aggregate sales growth. Faster sales growth will likely require faster economic growth, both in the U.S. and overseas. Yet recent data suggests that inventories have been growing, as retail and wholesale sales have slowed,² which means the rebound in overall earnings growth in 2016 may not end up being as robust as analysts currently predict. While aggregate dividend growth and the current [dividend yield](#) on the S&P 500 provide downside support for the market, aggregate dividend growth is also slowing, decelerating from an average of 13.5% over the last five years to 6.6% over the last 12 months.³ **How to Navigate a Sideways Market** If you believe, as I do, that the market is more likely to be flat to down over the next few months and through the presidential election in November, then there are two tools I believe investors may wish to use to navigate a sideways market. One is collecting [option premiums](#). The other is squeezing additional dividend income from the equity market. One way to do the former now

exists in the exchange-traded fund (ETF) structure. In February 2016, WisdomTree launched the [WisdomTree CBOE S&P 500 PutWrite Strategy Fund \(PUTW\)](#), which is designed to track the [CBOE S&P 500 PutWrite Index](#). The Fund, which owns [Treasury bills](#), collateralizes its cash each month to sell "[at the money](#)" [put options](#) to collect premiums representing the price of these put options on the underlying S&P 500 Index. The CBOE Index, which has a live history dating back to 2007, shows that writing puts in sideways markets has the potential to generate returns that exceed those generated by the S&P 500 Index. In 2011, when the S&P 500 returned 2%, the CBOE Index returned 6%. And in 2015, when the S&P returned just north of 1%, the CBOE Index, because of the option premiums collected, advanced 6%. **Get Paid to Own Equity Markets** The other key principle to remember in the current environment is to maximize dividend income. About 2.2% of the market's 7.0% annualized return over the last 10 years came from the dividends paid by companies in the S&P 500,⁴ a reminder of how important dividends are in low-return environments. If you believe U.S. equity returns for the next year—or the next 10 years—may end up in that mid-single-digit range, you may prefer to invest in equity markets based on the [dividends](#) that companies pay rather than their market value. WisdomTree's dividend-weighted Indexes provide broad-based equity exposure that has [correlated](#) highly with established indexes but which offers starting dividend yields that in many cases range from 75 to 200 [basis points \(bps\)](#) above comparable [capitalization-weighted](#) indexes. One of my favorite ideas in this current environment, where investors are looking for a combination of present yield and defensive exposure, is the [WisdomTree High Dividend Fund \(DHS\)](#). The Index that DHS tracks, the [WisdomTree High Dividend Index](#), composed largely of [mega-cap](#) and [large-cap](#) dividend payers, has a [trailing dividend yield](#) of 4.15%.⁵ Moreover, as illustrated in the table below, the WisdomTree Index had an excellent first quarter in 2016, outperforming the S&P 500 by more than 600 bps. **The WisdomTree High Dividend Index: An Impressive Long-Term History and a Strong Start in 2016**

Average Annual Returns as of March 31, 2016						
Index	WisdomTree Index Inception Date	YTD	1 year	3 years	5 years	Since WisdomTree Index Inception
WisdomTree High Dividend Index	6/1/2006	8.06%	8.38%	11.24%	13.61%	6.64%
Russell 1000 Value Index		1.64%	-1.54%	9.38%	10.25%	5.82%
S&P 500 Index		1.35%	1.78%	11.82%	11.58%	7.30%

Source: Bloomberg. You cannot invest directly in an index. Past performance is not indicative of future results. 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.

If there is a rotation going on now in the market, from [growth](#) and [momentum](#) stocks to [value](#) and dividend-yielding stocks, then the WisdomTree High Dividend strategy is structured to benefit from that rotation. **Unless otherwise noted, data source is Bloomberg.**

¹Source: Bloomberg. ²Source: Bloomberg, most recent readings. ³Source: Bloomberg, measuring the growth of trailing 12-month dividends on the S&P 500 Index universe. ⁴Source: Bloomberg, for period from 3/31/06 to 3/31/16. ⁵Source: Bloomberg, as of 3/31/2016.

Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. PUTW 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). The options values are partly based on the volatility used by dealers to price such options, so increases in the implied volatility of such options will cause their value 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 to 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.

Funds focusing their investments on certain sectors increase their vulnerability to any single economic or regulatory development. This may result in greater share price volatility.

Due to the investment strategy of the Funds, it may make higher capital gain distributions than other ETFs. Please read each Fund's prospectus for specific details regarding each Fund's risk profile.

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)

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, Kara Marciscano, Jianing Wu, Brian Manby and Scott Welch 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

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.

S&P 500 Price Index : S&P 500 given in price values excluding dividends.

Operating margin : Operating income divided by total sales. Higher numbers indicate higher profitability.

Net income profit margin : Net income divided by total sales. Higher values indicate a greater fraction of each dollar of sales being left to the firm and its owners after expenses are accounted for.

Margins : Focused on issues impacting the overall economic landscape as opposed to those only impacting individual companies.

Multiple expansion : Term for a rising P/E ratio, meaning that share prices are rising faster than earnings are growing.

Share buybacks : Firms using cash to purchase their own outstanding shares; may positively impact the share price.

Dividend yields : Refers to the trailing 12-month dividend yield. Dividends over the prior 12 months are added together and divided by the current share price. Higher values indicate more dividends are being generated per unit of share price.

Option premium : The current price of any specific option contract that has yet to expire.

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.

Treasury Bill : A treasury bill (T-Bill) is a short-term debt obligation backed by the U.S. government with a maturity of one month (four weeks), three months (13 weeks) or six months (26 weeks).

100% Passively Hedged Approach : Strategy designed to have the full currency exposure hedged, regardless of any changes in market conditions.

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

Dividend : A portion of corporate profits paid out to shareholders.

Correlation : Statistical measure of how two sets of returns move in relation to each other. Correlation coefficients range from -1 to 1. A correlation of 1 means the two subjects of analysis move in lockstep with each other. A correlation of -1 means the two subjects of analysis have moved in exactly the opposite direction.

Basis point : 1/100th of 1 percent.

Market capitalization-weighting : Market cap = share prices x number of shares outstanding. Firms with the highest values receive the highest weights in approaches designed to weight firms by market cap.

Mega Cap : Market Capitalization over \$100 Billion.

Large-Capitalization (Large-Cap) : A term used by the investment community to refer to companies with a market capitalization value of more than \$10 billion. Large cap is an abbreviation of the term "large market capitalization". Market capitalization is calculated by multiplying the number of a company's shares outstanding by its stock price per share.

Trailing 12-month dividend yield : Dividends over the prior 12-months are added together and divided by the current share price. Higher values indicate more dividends are being generated per unit of share price.

Growth : Characterized by higher price levels relative to fundamentals, such as dividends or earnings. Price levels are higher because investors are willing to pay more due to their expectations of future improvements in these fundamentals.

Momentum Stocks : Stocks characterized by high sensitivity to sentiment and perception of potential, with lower sensitivity to actual business operation.

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.