

AN ETF SOLUTION FOR DOWN MARKETS

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2016 is off to a challenging start, and [fundamentals](#) have been deteriorating. What are investors to do? Often, investors look to [alternative](#) asset classes, such as [long/short](#) strategies, which typically aim to offer lower [volatility](#) access to risk markets. To that end, WisdomTree recently launched the [WisdomTree Dynamic Long/Short U.S. Equity Fund \(DYLS\)](#), a [liquid](#) alternative solution that applies a [dynamic hedging](#) indicator to [hedging](#) market risk during unfavorable times.

The Alternative Benefit One of the primary benefits of alternative investments is the diversification they provide to traditional long-only asset classes such as stocks and bonds. Long/short strategies have the ability to profit from short positions, or hedge market risk, so they have the potential to protect investors, or even profit, when markets turn negative. Over time, being able to limit or buffer losses during unfavorable markets can prove critical to increasing portfolio returns while reducing risk. DYLS has the ability to adjust its hedge ratios (or short percentage) on a monthly basis based on a rules-based dynamic indicator. Typically, when market fundamentals deteriorate or turn negative, the dynamic indicator will signal to hedge a percentage of the portfolio. Depending on market fundamentals, DYLS's net equity exposure could range from 0% to 100%, allowing investors to potentially buffer negative market moves. The dynamic hedge indicator for DYLS for January 2016 signaled for the Fund to be 100% hedged. **Incorporating a Dynamic Hedge Ratio** Naturally, applying the rules-based dynamic hedging indicator to the [S&P 500 Index](#) improved returns and lowered risk compared to just investing in the S&P 500, and it was achieved primarily by protecting investors during some of the worst monthly returns. In the table below we look at the 10 worst monthly returns for the S&P 500 over the past 14 years, and compare it to the returns if the hedge ratio determined by the dynamic indicator had been applied. As we can see below, even though the indicator wasn't able to perfectly time the 10 worst months, it was predictive enough to protect approximately 50% of the drawdowns. The largest return differential between the two strategies was 9.05%.

Hedging Indicator Applied to the S&P 500 Index

| Date | S&P 500 Index | | S&P 500 Strategy w/ Hedging Indicator | |
|--------------------------------|----------------|---------------------|---------------------------------------|---------------------|
| | Monthly Return | Net Equity Exposure | Monthly Return | Net Equity Exposure |
| Oct-08 | -16.80% | 100% | -8.36% | 50% |
| Sep-02 | -10.87% | 100% | -5.37% | 50% |
| Feb-09 | -10.65% | 100% | -5.31% | 50% |
| Sep-08 | -8.91% | 100% | 0.14% | 0% |
| Jun-08 | -8.43% | 100% | -8.43% | 100% |
| Jan-09 | -8.43% | 100% | -4.21% | 50% |
| May-10 | -7.99% | 100% | -7.99% | 100% |
| Jul-02 | -7.80% | 100% | 0.14% | 0% |
| Nov-08 | -7.18% | 100% | -3.57% | 50% |
| Jun-02 | -7.12% | 100% | -7.12% | 100% |
| Average Return/ Hedge Ratio | -9.42% | 100.00% | -5.01% | 55.00% |
| Median Return/ Hedge Ratio | -8.43% | 100.00% | -5.34% | 50.00% |

Sources: WisdomTree, Alpha Vee, 12/31/01–12/31/15. The hedging indicator determines the monthly hedge ratio, which adjusts the net equity exposure to one of the following: 0%, 50% or 100%. Past performance is not indicative of future results. You cannot invest directly in an index.

Accessing Long/Short

Strategies in a Low-Cost¹ ETF Traditionally, alternative investments can be fraught with challenges such as high fees, investment minimums, lockup periods and lack of transparency, liquidity or tax efficiency. However, DYLS offers investors an alternative investment strategy packaged in a low-cost, tax-efficient, liquid ETF structure. ¹Ordinary brokerage commissions apply.

Important Risks Related to this Article

Diversification does not eliminate the risk of experiencing investment loss.

There are risks associated with investing, including possible loss of principal. The Fund will invest in derivatives, including as a substitute to gain short exposure to equity securities. 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. Derivatives used by the Fund to offset its exposure to market volatility may not perform as intended. The Fund may engage in "short sale" transactions and will lose value if the security or instrument that is the subject of a short sale increases in value. A Fund that has exposure to one or more sectors may be more vulnerable to any single economic or regulatory development. This may result in greater share price volatility.

The composition of the Index is heavily dependent on quantitative models and data from one or more third parties, and the Index may not perform as intended. The Fund invests in the securities included in, or representative of, its Index regardless of their investment merit, and the Fund does not attempt to outperform its Index or take defensive positions in declining markets. 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

Fundamentals : Attributes related to a company's actual operations and production as opposed to changes in share price.

Alternative Investment : An investment that is not one of the three traditional asset types (stocks, bonds and cash). Alternative investments typically include hedge funds, managed futures, real estate, commodities and derivatives contracts.

Long (or Long Position) : The buying of a security such as a stock, commodity or currency, with the expectation that the asset will rise in value, the opposite of Short (or Short Position).

Short (or Short Position) : The sale of a borrowed security, commodity or currency with the expectation that the asset will fall in value, the opposite of Long (or Long Position).

Liquidity : The degree to which an asset or security can be bought or sold in the market without affecting the asset's price. Liquidity is characterized by a high level of trading activity. Assets that can be easily bought or sold are known as liquid asset.

Dynamic Hedge : Strategy in which a currency hedge can be varied (as opposed to targeting a constant level) and change over the course of time.

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.

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.