

# PUTWRITE STRATEGY FUND: A RISK MITIGATING ALLOCATION TO INVESTORS' PORTFOLIOS

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The [WisdomTree CBOE S&P 500 PutWrite Strategy Fund \(PUTW\)](#) is a passive investment strategy that tracks the [CBOE S&P 500 PutWrite Index \(PUT\)](#), before fees and expenses. PUTW invests in short-duration [Treasury bills](#) and collects [premiums](#) by selling [S&P 500 \(SPX\) put options](#). Those not familiar with selling options may assume the Fund has a higher risk profile than traditional equity investments. As we shall demonstrate, in practice [put writing](#) may not only be less risky than it is perceived, but at times it could potentially prove less risky than simply buying and holding S&P 500 Index equities. Before we take a deep dive to explain how, it is important to highlight key features of this Fund. The number of puts sold is chosen to ensure full collateralization—this strategy is also commonly referred to as writing cash-secured puts. This means the strategy is 100% collateralized. In other words, at expiration of the put options, the maximum possible loss (if hypothetically the S&P 500 Index were to go to zero) must be equal to the total value of the Treasury bill. In simpler words, the strategy employs no [leverage](#). Therefore, if the S&P 500 Index hypothetically goes to zero, losses borne by the put positions are collateralized by the Treasury account. Further, in this hypothetical scenario of losses to zero, PUTW would be expected to outperform the S&P 500, because the upfront premium collected (from selling puts) would act as a cushion to drawdowns. **PUTW Provides Potential Downside Cushions** Now, let's see how the CBOE S&P 500 PutWrite Index (PUT), the underlying index of PUTW, compares from a returns perspective with the actual S&P 500 Index returns.

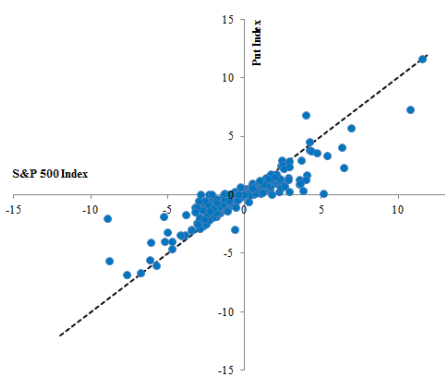
Daily and Monthly Return Comparison

	Negative Return Stream		Positive Return Stream	
	S&P 500 Index	PUT Index	S&P 500 Index	PUT Index
Mean Return	-0.95%	-0.65%	0.85%	0.39%
Median Return	-0.59%	-0.34%	0.56%	0.22%
Standard Deviation	1.10%	0.91%	1%	0.72%

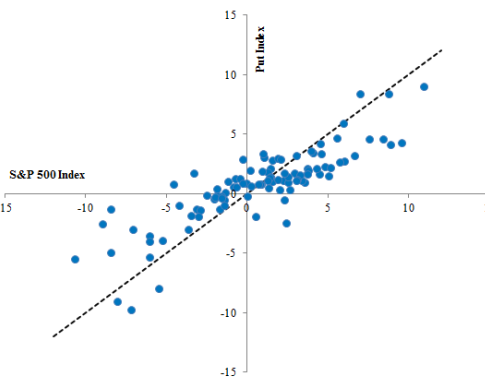
  

	Negative Return Stream		Positive Return Stream	
	S&P 500 Index	PUT Index	S&P 500 Index	PUT Index
Mean Return	-3.65%	-2.64%	3.43%	2.20%
Median Return	-2.95%	-1.91%	2.96%	1.68%
Standard Deviation	2.83%	2.63%	2.52%	1.84%

Daily Return Comparison  
S&P 500 Index vs. Put Index



Monthly Return Comparison  
S&P 500 Index vs. Put Index



Source: Bloomberg, 6/20/07 – 12/31/15.

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

For definitions of terms in the

charts, visit our [glossary](#). The charts above are scatter plots with returns of PUT (on the vertical axis) and returns of the S&P 500 Index (on the horizontal axis) since the live inception of PUT. The chart on the left is with daily returns, and the chart on the right is the same, just plotted with monthly returns. If the returns of the two indexes (i.e., PUT and S&P 500) were the exact same, all dots would lie on the 45-degree line. When a dot is above this line, PUT had better returns than SPX on that day; if a dot is below the 45-degree line, then the reverse is true (SPX outperformed PUT on that day).

**Downside Cushions:** Most of the dots on the lower-west quadrant or negative side of the horizontal axis (i.e., when the S&P 500 had negative returns) lie above the line. This means on days when the S&P 500 experienced negative returns, PUT fared better. Intuitively, this occurred because put writers collected premiums upfront from the selling of puts, which acted as cushion for the drawdowns. A more detailed look reveals that average returns of the S&P 500 Index when it was negative were -0.95% for daily returns (and -3.65% for monthly), compared to -0.65% for daily returns of PUT (and -2.64% for monthly). This means:

- For days when the S&P 500 experienced negative returns, average PUT returns were 30 [basis points \(bps\)](#) higher than average returns for the S&P 500.
- Similarly, on a monthly basis (right chart), when S&P 500 returns were negative, average returns of PUT were 101 bps higher than average returns for the S&P 500.
- PUT not only performed better, it did so with lower volatility (as measured by [standard deviation](#)) during times of S&P 500 corrections.

In fairness, upside (i.e., upper or east quadrant) returns PUT generated mostly lagged. While SPX had average upside returns of 85 bps, PUT went up by 39 bps only. However, here too 39 bps was realized with significantly lower [volatility](#) (which would make PUT attractive from a risk-adjusted basis even on the upside). In simple words, what it boils down to is this: During times of market correction, PUT not only performed better than the S&P 500 Index, but it did so with lower volatility, making it attractive from a risk-adjusted basis. Thus, individual days may differ, and it certainly is possible that PUT performed worse than the S&P 500 on any single down day; historically it has happened only a few times. Thus, quite contrary to the perception of PUTW being more risky, it could actually act as a risk-mitigating complement. We believe by incorporating an allocation to PUTW, investors could provide a necessary cushion to portfolio returns during market corrections and could help improve the overall risk-adjusted performance of their portfolios. ***Unless otherwise noted, data source is Bloomberg, as of 12/31/15.***

#### Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. The 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). 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 of the Fund is limited to the number of option premiums it receives; however, the Fund can potentially lose up to the entire strike price of each option it sells. Due to the investment strategy of the Fund, it may make higher capital gain distributions than other ETFs. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

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**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.

**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.

**U.S. Treasury Bill** : A short-term debt obligation backed by the U.S. government with a maturity of less than one year.

**Premium** : When the price of an ETF is higher than its NAV.

**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.

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

**PUT Writing** : Put writing is an essential part of options strategies. Selling a put is a strategy where an investor writes a put contract, and by selling the contract to the put buyer, the investor has sold the right to sell shares at a specific price. Thus, the put buyer now has the right to sell shares to the put seller.

**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.

**Basis point** : 1/100th of 1 percent.

**Standard deviation** : measure of how widely an investment or investment strategy's returns move relative to its average returns for an observed period. A higher value implies more "risk", in that there is more of a chance the actual return observed is farther away from the average return.

**Volatility** : A measure of the dispersion of actual returns around a particular average level.&nbsp;