WBAL: THE PROBLEM-SOLVING ETF OF ETFS

Jeff Weniger — Head of Equity Strategy
04/02/2018

The Known Quantity

What defines a "balanced fund" is in the eye of the beholder. For some mutual funds, a 60%/40% equity/fixed income mix one year might be 50%/50% the next year. Who knows? No one knows. How boldly a fund may deviate from the original mandate is guesswork.

Hard-and-fast rules can help solve the problem. Our new ETF, the WisdomTree Balanced Income Fund (WBAL), is a 60%/40% equity/fixed income ETF of ETFs. Only market drift will take it away from 60/40. And even if that does happen, we rebalance it.

Addressing the Problem of Weak Managers

A benefit of WBAL's ETF-of-ETFs structure is that, despite the current weighted-average expense ratio of WBAL's 12 underlying ETFs being 32 basis point (bps), we structured it so that its all-in cost will always be 35 bps, or 3 incremental basis points beyond what would be incurred from owning the 12 ETFs individually.

Those 12 ETFs are all rules based, so they tap into classic WisdomTree smart beta methodologies such as weighting equity holdings by dividends, not market capitalization. That is one of the nice benefits of a balanced fund that comes from a smart beta-oriented firm.

Early last year, S&P Dow Jones Indices published research that exposed the pressure that has been building on active money managers. It found that only 30.8% of U.S. large-cap mutual funds outperformed their benchmarks over three years.[1] Perhaps more disturbingly, of those funds, only 5.2% went on to outperform in the subsequent three years.

According to Morningstar, the asset-weighted median expense ratio for U.S.-domiciled allocation funds is 0.64%.[2] So many mutual funds cannot compete; they trip over their own expense ratios.

Consider those 64 basis points in the context of the 2.68% yield of WBAL's benchmark. [3] Take out that fee—or more—and a large chunk of any portfolio's income can get gobbled up in a low-yield environment. In contrast, WBAL's 0.35% expense ratio is considerably lower than the aforementioned norm.

Common Sense

WBAL has a threefold engagement with prudent investing concepts: For one, it buys equities and liquidates bonds after the former underperforms, and vice versa. Second, it buys beaten-down asset-class sleeves at the underlying ETF level at rebalancing time. Third, its subcomponent ETFs engage value screens at the individual security level.

WBAL also picks up on the tendency of smaller companies to potentially outperform large companies. Again, this happens on several planes: The underlying ETFs ritually liquidate expensive companies by nature of not being cap weighted. Then WBAL reallocates to asset classes whose weights have drifted lower, and those asset classes tend to be populated by relatively smaller companies.

WBAL's Layers

As we dig into WBAL, built-in common sense jumps out. It engages in disciplined rebalancing, its expense ratio is nearly half the cost of the typical allocation fund, it taps into smart beta factors and, of course, it comes in an ETF structure. That brings with it tax, transparency and liquidity benefits, a key part of the reason trillions of dollars have flowed into ETFs over the last two decades.

In March 2018, WBAL was named Best New Asset Allocation ETF at the ETF.com Awards.[4]

[1]Source: "Active Fund Managers Rarely Beat Their Benchmarks Year After Year," CNBC, citing Fleeting Alpha: Evidence From the SPIVA and Persistence Scorecards, 2/17.

[2]Source: Morningstar 2017 Global Fund Investor Experience Study.

[3]Source: WisdomTree, as of 3/8/18. Past performance is not indicative of future results. Benchmark represents a 60% weight to the MSCI ACWI and 40% to the Bloomberg Barclays U.S. Aggregate Index. You cannot invest directly in an index. Dividend yield: A financial ratio that shows how much a company pays out in dividends each year relative to its share price.

[4]For more information please click *here*.

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, Jianing Wu, and Brian Manby 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

Mutual Funds : An investment vehicle made up of a pool of moneys collected from many investors for the purpose of investing in securities such as stocks, bonds, money market instruments and other assets.

Rebalance : An index is created by applying a certain set of selection and weighting rules at a certain frequency. WisdomTree rebalances, or re-applies its rules based selection and weighting process on an annual basis.

Basis point : 1/100th of 1 percent.

Smart Beta : A term for rules-based investment strategies that don't use conventional market-cap weightings.

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

Market Capitalization : 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.

Active manager : Portfolio managers who run funds that attempt to outperform the market by selecting those securities they believe to be the best.

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.

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 tim.

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.

MSCI ACWI Index : A free-float adjusted market capitalization-weighted index that is designed to measure the equity market performance of developed and emerging markets.

Bloomberg U.S. Aggregate Bond Index : Represents the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, as well as mortgage and asset backed securities.