

TWO STRATEGIES FOR MANAGING THE VOLATILITY OF U.S. MARKETS

Jeremy Schwartz – Global Chief Investment Officer
06/26/2017

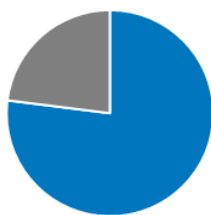
It has been some time since we last saw a reasonably sized pullback in the U.S. markets. We all know it is just a matter of time before it happens, and the latest moves in a number of the high-flying tech stocks have the chatter mills going into overdrive.

While the markets remain robust, it is a good time to consider [alternative](#) strategies that could help mitigate downside [volatility](#). Two strategies, I believe, are particularly relevant today: [PUTW, the WisdomTree CBOE S&P 500 PutWrite Strategy Fund](#), and [DYLS, the WisdomTree Dynamic Long/Short U.S. Equity Fund](#).

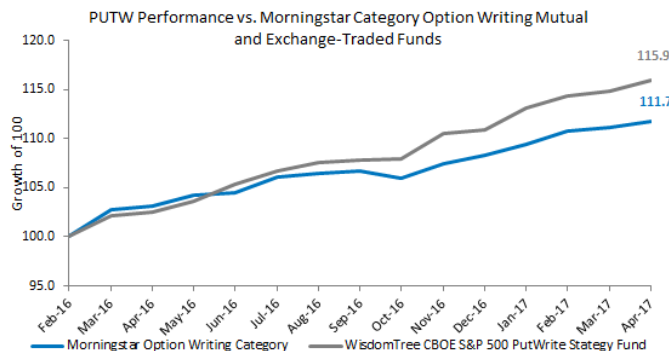
Option #1 for Managing Downside Risk: PutWrite Strategy Fund

Those who believe the upside gains in the market are limited should consider a put-write strategy fund like PUTW that effectively sells at the money [put options](#) on a monthly basis and collects the [option premiums](#)—capping upside participation in the market but historically protecting on downside. Especially if the down market that inevitably arises brings with it a rise in volatility, the option premiums collected by PUTW are apt to increase from today’s low levels. Downside risk, of course, will bring losses on option premiums, but over time we believe this strategy has the potential to garner market-like, [S&P 500](#) returns as a function of the option premiums PUTW can collect, and it can do so with lower volatility levels.

PUTW Percentage of Peers Outperformed



■ % of Funds PUTW Outperformed
■ % of Funds PUTW Lagged



Sources: Morningstar, WisdomTree, 2/24/16–5/31/17. 2/24/16 represents the PUTW inception date. Past performance is not indicative of future res information herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be nor its content providers are responsible for any damages or losses arising from any use of this information.

Average Annual Total Returns as of 5/31/17					
	1-Year	Common Period	3-Year	5-Year	10-Year
WisdomTree CBOE S&P 500 PutWrite Strategy Fund	13.15%	13.57%	N/A	N/A	N/A
S&P 500 Index	17.47%	21.97%	10.14%	15.42%	6.94%
MorningStar Option Writing Category	7.80%	9.77%	3.82%	6.23%	3.84%

Sources: Morningstar, WisdomTree, 5/31/07–5/31/17. "Common period" refers to 2/29/16–5/31/17 due to availability of Morningstar category performance data.

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. Performance data for the most recent month-end is available at www.wisdomtree.com.

WisdomTree shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Total returns are calculated using the daily 4:00 p.m. EST net asset value (NAV). Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where Fund shares are listed. Market price returns do not represent the returns you would receive if you traded shares at other times.

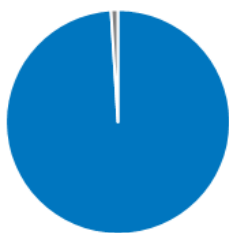
For standardized performance and other information regarding the fund please click [here](#).

Option #2: Long/Short ETF

Low-cost¹, daily-liquidity, alternative strategy funds are one of the areas where I see exchange-traded funds (ETFs) continuing to develop innovative solutions. At the end of 2015, WisdomTree launched DYLS, the WisdomTree Dynamic Long/Short U.S. Equity Fund. This Fund utilizes a dynamic market-hedging indicator and a rules-based index strategy that determines its exposure to the equity markets.

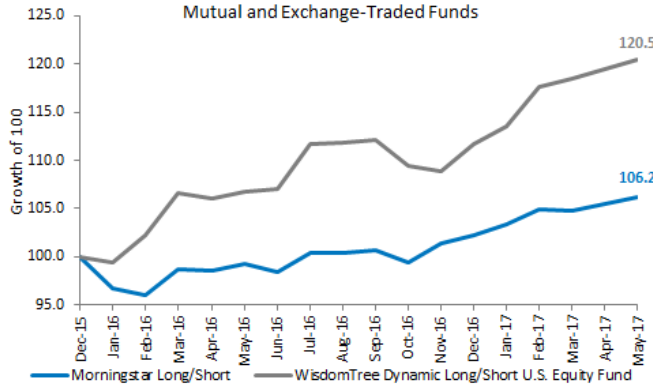
DYLS was fresh out of the gate and fully hedged in January and February 2016. It was a volatile time in the equity markets and a good time to have a market-neutral hedge in place. DYLS went unhedged in 2016 after the market close on March 2 and remained unhedged for the remainder of 2016 aside from November, adding a 50% hedge ratio just this June. This half hedge on the market was based on the earnings momentum component of the model losing steam and valuation levels being stretched, with the recent strong earnings gains coming up against tougher competitive benchmarks from past metrics.

DYLS Percentage of Peers Outperformed



■ % of Funds DYLS Outperformed
■ % of Funds DYLS Lagged

DYLS Performance vs. Morningstar Category Long/Short Equity Mutual and Exchange-Traded Funds



Sources: Morningstar, WisdomTree, 12/23/15–5/31/17. 12/23/15 represents the DYLS inception date. Past performance is not indicative of future results. 2016 Morningstar, Inc. All rights reserved. The information herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

Average Annual Total Returns as of 5/31/17					
	1-Year	Common Period	3-Year	5-Year	10-Year
WisdomTree Dynamic Long/Short U.S. Equity Fund	12.89%	14.08%	N/A	N/A	N/A
S&P 500 Index	17.47%	14.84%	10.14%	15.42%	6.94%
MorningStar Long/Short Equity	7.00%	4.32%	2.79%	6.38%	4.06%

Sources: Morningstar, WisdomTree, 5/31/07–5/31/17. “Common period” refers to 12/31/15–5/31/17 due to availability of Morningstar category performance data.

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. Performance data for the most recent month-end is available at www.wisdomtree.com.

WisdomTree shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Total returns are calculated using the daily 4:00 p.m. EST net asset value (NAV). Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where Fund shares are listed. Market price returns do not represent the returns you would receive if you traded shares at other times.

For standardized performance and other information regarding the fund please click [here](#).

I believe both of these funds are expected to have lower [beta](#) and market risk—strategies that are worth considering with markets at highs and widespread discussions concerning valuations of the U.S. markets.

- At least as of this June, DYLS’ net equity position has a 0.5 beta, and its beta since its launch, interestingly enough, has also been 0.5. But this 0.5 beta makes it one of the top performers in the entire category of long/short funds, beating 99% of its peers since inception. What I really like about the long/short strategy is that this fund also has lower market multiples and higher tilts toward quality stocks—which could also be beneficial in any market volatility environment.
- Option Writing Category: PUTW was launched three months after DYLS and has 15 months of real-time performance. Since its inception, PUTW has beaten 77% of its peers in the Morningstar Option Writing category, with a cumulative performance advantage of 380 [basis points \(bps\)](#) over its Morningstar peer group category average.

In summary, both of these funds are options for investors considering how to manage downside risk in the equity markets. Both strategies are designed to lower equity beta while also achieving long-run equity market upside participation.

¹Ordinary brokerage commissions apply.

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 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 the value of such options 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. Due to the investment strategy of the Fund, it may make higher capital gain distributions than other ETFs.

The Fund invests in derivatives, including as a substitute to gain short exposure to equity securities. 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 increase the Fund’s vulnerability 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 Funds’ prospectuses for specific details regarding the Funds’ 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, 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

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.

Volatility: A measure of the dispersion of actual returns around a particular average level.

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

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

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.

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.

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.

Unhedged: Strategy that includes the performance of both the underlying asset as well as the currency in which it is denominated. The performance of the currency can either help or hurt the total return experienced.

Momentum Factor: Characterized by assets with recent price increase trends over time. This term is also associated with the Momentum Factor which associates these stock characteristics with excess return vs the market over time.

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.

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.

Basis point: 1/100th of 1 percent.