

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

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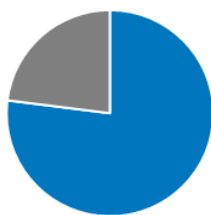
It has been some time since we last saw a reasonably sized pullback in the U.S. markets. We all know it is just a matter of time before it happens, and the latest moves in a number of the high-flying tech stocks have the chatter mills going into overdrive.

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](#).

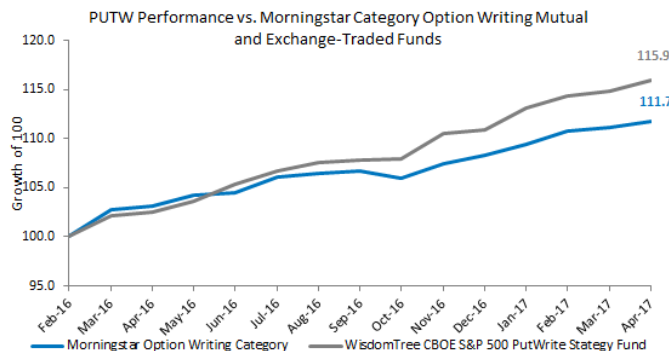
Option #1 for Managing Downside Risk: PutWrite Strategy Fund

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.

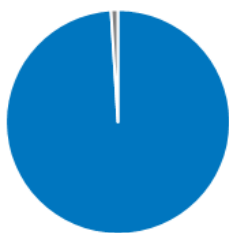
For standardized performance and other information regarding the fund please click [here](#).

Option #2: Long/Short ETF

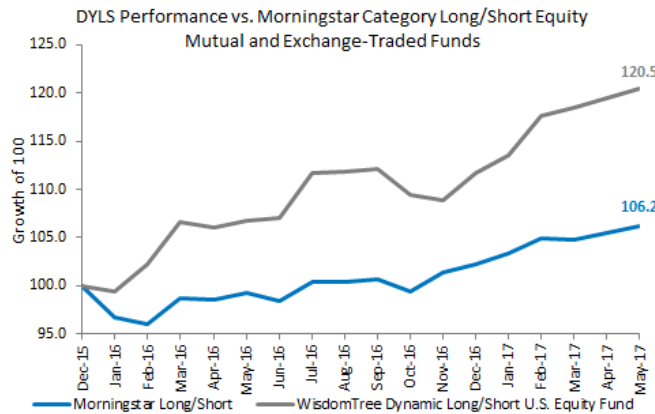
Low-cost¹, daily-liquidity, alternative strategy funds are one of the areas where I see exchange-traded funds (ETFs) continuing to develop innovative solutions. At the end of 2015, wisdomTree launched DYLS, the WisdomTree Dynamic Long/Short U.S. Equity Fund. This Fund utilizes a dynamic market-hedging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



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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.

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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.

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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](#).

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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.