

# WHEN THE MARKET GOES DOWN, DO ALL YOUR INVESTMENTS GO WITH IT?

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The [S&P 500 Index](#) fell close to 6% during the first week of trading in 2016, its worst weekly performance start ever!<sup>1</sup> It has many investors wondering: Is this the start of something worse to come, or will the S&P 500 shake it off and continue toward its eighth consecutive year of positive total returns? If the market rallies, you will likely have an array of long-only investments that should benefit, but what if it doesn't? Is your portfolio positioned to [hedge](#)—or even benefit from—a negative market move? **Introducing the [WisdomTree Dynamic Bearish U.S. Equity ETF \(DYB\)](#)**, WisdomTree's new exchange-traded fund (ETF), DYB, offers investors the opportunity to take a dynamic [bearish](#) position in U.S. equities and the potential to profit from market pullbacks. DYB is designed to be net short or market neutral (equal long and [short](#) positions) when the market environment is judged to be poor or mixed, and net long when the environment is deemed more attractive. With DYB, there is no need to try to make judgment calls or time the market yourself. This low-cost<sup>2</sup> ETF (expense ratio: 0.48%) follows a passive, rules-based strategy that removes all the guesswork. How? DYB uses a dynamic hedging indicator that considers a combination of [growth](#) and [value](#) indicators to determine the monthly short percentage. So when the growth [fundamentals](#), or profits, of the eligible Index universe are deteriorating, the dynamic indicator would look to hedge the portfolio. Similarly, as [valuations](#) become more stretched, adding risk to the portfolio, the indicator would look to hedge as well. Based on the growth and value indicators of the market, the dynamic hedging indicator would signal to be positioned in one of the following ways<sup>3</sup>:

- **Attractive**—100% long and 75% short (i.e., 25% net long)
- **Mixed**—100% long and 100% short (i.e., 0% net long)
- **Poor**—100% long Treasury bills and 100% short (i.e., 100% net short equity)

Below we illustrate the power of being dynamic by comparing a dynamic short strategy against a strategy that remains 100% net short, both layered on top of the S&P 500 Index. **Dynamic Hedging Indicator: How Did It Do?** As you can see in the chart below, using the dynamic hedging indicator to apply a dynamic short strategy to the S&P 500 Index resulted in higher returns and less risk over the full period measured. Although the dynamic short didn't profit as much during the most extreme negative calendar years (2002 and 2008), it was able to outperform during most other years by having the flexibility not to remain 100% net short. We think this is an important difference, because over long periods, the expected return of equities tends to be positive, making it difficult to profit from a long-term net-short position.

Year	Short S&P 500 Strategy	Short S&P 500 With Hedging Indicator	Hedging Indicator Value Added
2002	22.9%	4.2%	-18.7%
2003	-23.6%	8.0%	31.6%
2004	-10.3%	3.9%	14.3%
2005	-5.2%	2.0%	7.2%
2006	-14.1%	-2.3%	11.7%
2007	-6.0%	-0.5%	5.6%
2008	50.0%	18.7%	-31.3%
2009	-24.9%	7.0%	31.9%
2010	-16.2%	1.1%	17.3%
2011	-4.3%	11.8%	16.2%
2012	-14.8%	2.0%	16.8%
2013	-25.5%	7.4%	32.9%
2014	-12.7%	-4.4%	8.3%
2015	-3.0%	-7.2%	-4.1%
Full Period	Short S&P 500 Strategy	Short S&P 500 With Hedging Indicator	Hedging Indicator Value Added
Avg. Ann. Return	-7.97%	3.50%	11.48%
Std. Dev.	14.62%	6.27%	-8.35%

Sources: WisdomTree, Alpha Vee, 12/31/01–12/31/15. Past performance is not indicative of future results. You cannot invest directly in an index.

**Positioning for the Future** There is no way to predict the future of U.S. equity markets, but we think adding strategies that have the potential to hedge—or profit from—negative market moves can be an important element of overall portfolio diversification. Also, whether you’re investing on a tactical or strategic basis, we think it may be prudent to use a strategy that has the flexibility to adjust its short position based on market conditions. <sup>1</sup>Source: Howard Silverblatt; refers to first five trading days during a calendar year, dating back to 1929. <sup>2</sup>Ordinary brokerage commissions apply. <sup>3</sup>Due to the fact that the long component is rebalanced quarterly and the short component is rebalanced monthly, other combinations are possible.

#### Important Risks Related to this Article

Diversification does not eliminate the risk of experiencing investment losses.

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.

For more investing insights, check out our [Economic & Market Outlook](#)

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## **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.**

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You cannot invest directly in an index.

## DEFINITIONS

**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.

**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.

**WisdomTree Dynamic Bearish U.S. Equity Index** : A rules-based long/short index that includes long equity positions or long U.S. Treasury positions and short equity positions. The Long Equity Index consists of approximately 100 U.S. large- and mid-capitalization stocks that meet Index eligibility requirements and have the best combined score based on fundamental growth and value signals. Stocks are weighted in the Long Equity Index according to their volatility characteristics. The Short Equity Index consists of short positions in the largest 500 U.S. companies, weighted by market capitalization, designed to act as a market risk hedge. The Index provides a dynamic allocation of exposure to the Long Equity Index ranging from 100% to 0% while employing a variable monthly hedge ratio ranging from 75% to 100% exposure to the Short Equity Index based on a quantitative rules-based market indicator that scores growth and value market signals. During times when the market indicator shows unattractive readings on valuation and growth characteristics, the Index can move to 100% exposure to the Long Treasury Index (and accordingly no exposure to the Long Equity Index).

**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).

**Growth** : Characterized by higher price levels relative to fundamentals, such as dividends or earnings. Price levels are higher because investors are willing to pay more due to their expectations of future improvements in these fundamentals.

**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 time.

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

**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.