
WISDOMTREE CEO JONATHAN STEINBERG ON THE FUTURE OF THE ETF INDUSTRY AND WHY HE ONLY HIRES HAPPY PEOPLE

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02/15/2018

In our latest “Behind the Markets” podcast, we had a special guest joining us at our Wharton studio: the CEO and founder of WisdomTree, Jonathan Steinberg. We discussed Jono’s story from his days at Wharton to his founding of WisdomTree and where he sees the future of asset management and WisdomTree’s place in it.

Wharton’s Influence on Jono

Wharton was of great importance to Jono and his family, especially to his father, Saul Steinberg. At Wharton, Saul discovered the idea to disrupt IBM in the computer-leasing business in one of his classes. This inspired him to give back to the university over the years.

Jono ended up leaving Wharton in 1986 to join Bear Stearns full time when he had the idea to break up Xerox. Jono parlayed his Bear Stearns experience into buying a financial media company that published the *Individual Investor* magazine, which was the genesis of WisdomTree as it exists today.

A Passion for Research

Jono discovered investing and finance as a young boy—he remembers thinking about investing and what makes a successful business back when he was 7 years old. His father had very early success, bringing a company public as CEO at 25 years old. This helped inspire Jono to dream big—he always saw himself running a financial services company.

Jono told a story of how prior to his dad’s prodding of the Securities and Exchange Commission, there had never been a public database of SEC disclosures and filings. Jono was thus instilled with a passion for financial information and research, and his *Individual Investor* magazine was a place for independent stock research. The company was also one place he connected with a Wharton alum, Professor Jeremy Siegel, who was a columnist for the magazine for many years.

The WisdomTree Culture and WisdomTree Way

Jono described one of the primary strengths of WisdomTree as the employee base and team, which he believes is the most-senior exchange-traded fund (ETF) team with the most collective years working together in the industry. The company has won awards for being one of the “Best Places to Work” in the asset management industry three years in a row. Jono says, “Only hire happy people—people comfortable in their own skin.”

One of the unique things Jono implemented to help retain employees is the institution of a 10-year sabbatical program to help recharge employees who have been there for a significant period and give them time with their families. Jono wants to win for three audiences: WisdomTree Investments shareholders, our ETF investors and his employees.

The Investing Approach

Professor Siegel described his attraction to joining Jono as a result of the research he was working on separately in the aftermath of the tech bubble, when he became more dissatisfied with a strict [market capitalization-weighted](#) approach. In his book, *The Future for Investors*, Prof. Siegel counsels investors to employ the “D-I-V” directives, which means to be 50% tied to cap-weighted indexes and 50% in return-enhancing strategies, with those return enhancements coming from tilting to D for high-[dividendyield](#) stocks, I for *international*—with an emphasis on the emerging markets and the growth potential there—and V for low-[P/E](#) value stocks.

When you look at WisdomTree’s inception and the 20 funds that launched in June 2006—with 14 of the 20 funds covering the international markets, all with an emphasis on relative value [rebalancing](#)—there was a synergy all along with the professor’s beliefs and WisdomTree’s innovative indexing approach.

Diversifying the Asset Base and Firm

Many of the critics of WisdomTree point to a concentrated asset base, with large funds operating in the [currency-hedged](#) space. Jono described one of the motivations for the acquisition agreement for ETF Securities’ exchange-traded commodity, currency and short-and-leveraged business as diversifying the asset base of WisdomTree into commodities, and he sees the combined firm being the second most diversified global ETF provider after iShares, with 40% of assets coming from outside of the United States. Jono also believes that no asset manager gets large without large funds, so most asset managers will have some type of concentration risk that is unavoidable.

Fintech Investing

Jono sees two types of investors—online, self-directed investors who have a real passion for controlling their own investments, and another segment, those who do not enjoy it and feel as though going to their financial advisor is just as painful as going to the dentist. Jono believes there is a large and important opportunity to help service financial advisors by improving their ultimate client experiences with technology. One of the motivations for WisdomTree’s recent technology investments is to help broaden the reach of the firm’s model portfolios for clients who embrace digital technology and need help building portfolios.

New Categories for WisdomTree Growth

We had a discussion about the focal points of product development that Jono is most excited about; those include recent launches aimed to enhance cap-weighted index returns for fixed income; providing a liquid, low-fee¹ alternative for [liquid alternatives](#) competing with hedge funds; and fully transparent, true [active](#) strategies in the ETF structure.

Non-Transparent Active?

Jono believes the non-transparent active ETF initiative symbolizes the financial services industry generally—where in any other industry, he believes you would be “laughed out of the room” if you tried to take what is at the core of the innovation of the structure and remove it. He is skeptical that non-transparent active ETFs will become large commercial successes.

Underinvested against the Opportunity

Jono believes most firms have underinvested in the ETF opportunity, while he invests the maximum amount of the firm's income statement and balance sheet that he can in order to pursue the growth opportunities in ETFs that he still sees ahead.

In the first 10 years of WisdomTree's history, the ETF industry had \$2.2 trillion of inflows, and WisdomTree was able to represent 2.3% of the total inflows to the industry. Jono believes in the next 10 years in the United States, starting this year, we could see anywhere from \$5 trillion to potentially \$7 trillion of flows. With the breadth of product development and further investments and asset classes we can now represent, Jono believes we can take 5% of the industry flows. He would like to remain an independent company and become a "forever company" to play this scenario out, but he recognizes how much work we have ahead of us to make this come true.

Life Lessons

Jono said that when he was growing up, he was never interested in his father's wealth, but rather his confidence and passion. His father had a true enthusiasm for life and the thrills that each new day brought. This passion instilled Jono with a sense that money and wealth alone would not bring true happiness. Jono's strength comes from his inner truth and inner happiness. His devotion to what he does was transparent in this interview, and I encourage you to listen to the full conversation [here](#).

¹Ordinary brokerage commissions apply.

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](#)

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DEFINITIONS

Market capitalization-weighting : 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.

Dividend yield : A financial ratio that shows how much a company pays out in dividends each year relative to its share price.

Price-to-earnings (P/E) ratio : Share price divided by earnings per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested.

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.

Currency hedging : Strategies designed to mitigate the impact of currency performance on investment returns.

Liquid alternative : An alternative investment, one that is not one of the three traditional asset types (stocks, bonds and cash), that can be bought and sold on a daily basis.

Active : Funds that attempt to outperform the market by selecting securities a portfolio manager believe to be the best.