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# LONG OR SHORT?

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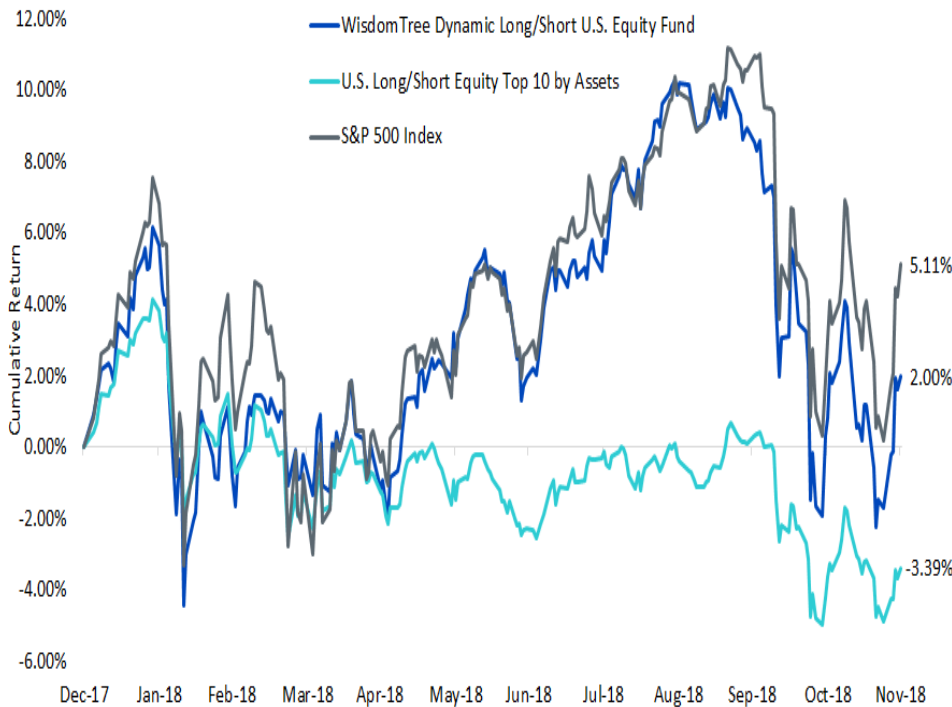
U.S. equity markets have delivered strong results this year, but those gains were quickly erased in October. With increased [volatility](#), more investors are looking for ways to protect their portfolios.

Alternative strategies, such as [long/short](#) equity, can potentially help smooth out the returns at the extremes and limit [drawdowns](#). Unfortunately, some of the largest traditional long/short managers have failed to deliver, even amid today's volatile market.

But one strategy may help add value during these turbulent times.

In the figure below, we compare the [WisdomTree Dynamic Long/Short U.S. Equity Fund \(DYLS\)](#) against the 10 largest competing funds in the Morningstar U.S. Long/Short Equity Category. As you can see, year-to-date, the average of the 10 largest funds by AUM has failed to add [value](#) in this period of heightened volatility.

## **Year-to-Date Performance**



Sources: WisdomTree, Morningstar, for the period 12/31/17–11/30/18. Data based on nav daily returns. During the period the Morningstar Category average returned -1.77 %.

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.

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For standardized performance of DYLS, please click [here](#).

DYLS adjusts net equity market exposure monthly, using [hedging](#) instruments; adjustments range from being fully invested (no hedge ratio applied) to fully market neutral (fully hedged).

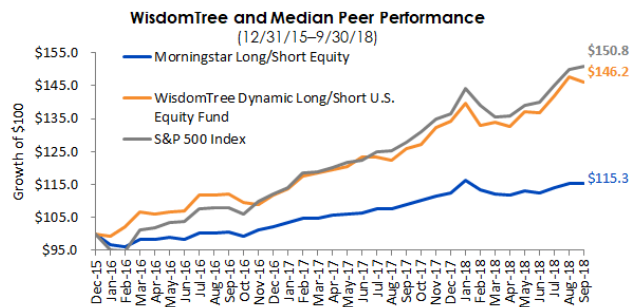
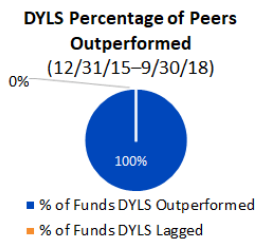
When underlying fundamentals are strong, there is no hedge ratio applied. When fundamentals become mixed, a partial hedge is applied, and when fundamentals are weak, a full market hedge seeks to protect investors from downdrafts in the equity market while still delivering excess returns through security selection. Our research leads us to anticipate the fund's net [beta](#) over time will likely average somewhere between 0.6 and 0.7.

With continued positive trends in corporate profits, DYLS has been mostly fully invested year-to-date. Although markets have been volatile, maintaining market risk so far has proven correct and as of the end of November has generated a positive return, even though the strategy has underperformed the [S&P 500 Index](#).

When comparing available category performance through the latest quarter-end, the Morningstar Category found it difficult to keep up with the S&P 500 Index and DYLS, underperforming by 11.9% and 10.1%, respectively. And some of the largest funds by assets in the category have not done as well as the Median Morningstar Category Performance.

Managing risk during a wild market is never easy. But we are encouraged that over the almost three-year period DYLS has been live, the Fund was able to beat 100%, as of September 30th, of the long/short funds in its peer group based on

total return.



Fund/Index/Category	Average Annual Total Returns as of 9/30/18												
	Fund Information			NAV Returns (%)						Market Price Returns (%)			
	Ticker	Exp. Ratio	Inception Date	1-Year	Common Period	3-Year	5-Year	10-Year	1-Year	Common Period	3-Year	5-Year	10-Year
WisdomTree Dynamic Long/Short U.S. Equity Fund	DYLS	0.48%	12/23/2015	16.1%	14.8%	N/A	N/A	N/A	16.1%	14.8%	N/A	N/A	N/A
S&P 500 Index				17.9%	16.1%	17.3%	14.0%	12.0%	17.9%	16.1%	17.3%	14.0%	12.0%
Morningstar Long/Short Equity				6.0%	5.3%	N/A	N/A	N/A	6.0%	5.3%	N/A	N/A	N/A

Sources: Morningstar, WisdomTree, for the period 12/31/15-9/30/18. "Common Period" refers to 12/31/15-9/30/18 due to availability of Morningstar Category performance data; 12/23/15 is the DYLS inception date. Returns since inception as of 9/30/18 were 14.61% for NAV and 14.61% for market price. 216 investments included in the peer group for the Morningstar Long/Short Equity Category.

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](http://www.wisdomtree.com).

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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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You cannot invest directly in an index.

## DEFINITIONS

**Volatility** : A measure of the dispersion of actual returns around a particular average level.&nbsp;.

**Long (or Long Position)** : The buying of a security such as a stock, commodity or currency, with the expectation that the asset will rise in value, the opposite of Short (or Short Position).

**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).

**Drawdowns** : Periods of sustained negative trends of return.

**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.

**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.

**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.

**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.