

# THREE YEARS AND COUNTING OF HIGHER RETURNS AND LOWER RISK

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What started out as a thought experiment proposed by Cliff Asness in the late '90s evolved into one of the most effective crowdsourced ideas in ETF product development history.

Leveraging the historical inverse relationship between U.S. equities and U.S. bond returns and providing a capital efficient combination of 90% equities and 60% bond futures “stacked on top,”<sup>1</sup> WisdomTree created a strategy—the [WisdomTree U.S. Efficient Core Fund \(NTSX\)](#)—that has delivered higher cumulative returns than the [S&P 500 Index](#) with lower [volatility](#) and smaller drawdowns since its inception in August 2018.

While there are no guarantees in investing, we are confident this approach can continue to add [diversification](#) value to the core of portfolios.

## Cumulative Returns



Source: WisdomTree, as of 8/31/21 at NAV (Total Return). You cannot invest directly in an index.

**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 [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 of NTSX, please click [here](#).

KEY METRICS with Common Period of Funds 8/2/18–9/13/21		NTSX	S&P 500 Index
Performance	Avg Annual Returns over Common Period (%)	19.8%	18.0%
Income	Trailing 12M Dividend Yields (%) as of 7/31/21	0.90%	-
Risk	Avg Annual Volatility as of 7/31/21	15.80%	18.50%
Risk-adj. Returns	Avg Annual Sharpe Ratio as of 7/31/21	1.15	-
Fees	Net Expense Ratio (bps) as of 7/31/21	20 bps	-

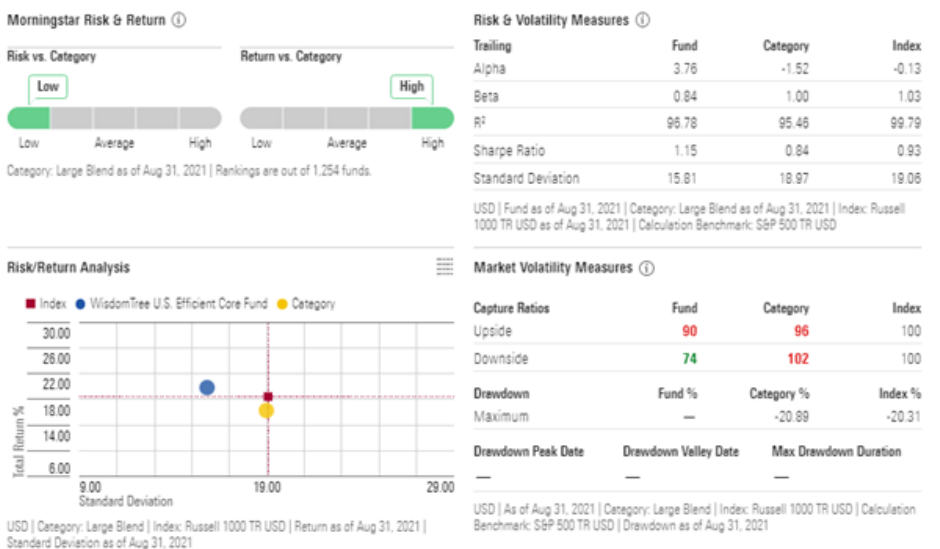
Source: WisdomTree, as of 9/13/21. Subject to change. You cannot invest directly in an index.

For definitions of terms in the charts, please visit our [glossary](#).

Another way to quickly summarize the past performance, with three years of data now available, [NTSX](#) was awarded 5 stars from Morningstar, putting it near the top of the large cap blend category. Based on risk adjusted returns as of 8/31/21 out of 1,254 funds for the large cap blend category for the 3 year period.

Morningstar’s Risk dashboard shows key statistics from the last three years of live data:

- [NTSX](#) ranked in the lowest risk bucket of funds in the large blend category.
- [NTSX](#) ranked in the top decile of funds based on risk adjusted returns for performance in the large blend category.
- [NTSX](#) had a [beta](#) of 0.84, illustrating the lower risk dynamics (and less than the 90% allocation to equities, showing the bond diversification value).
  - With 90% [up capture](#) and 74% [down capture](#), while the Morningstar category average for large blend was 96% upside but 102% downside capture.



Source: Morningstar, as of 8/31/21.

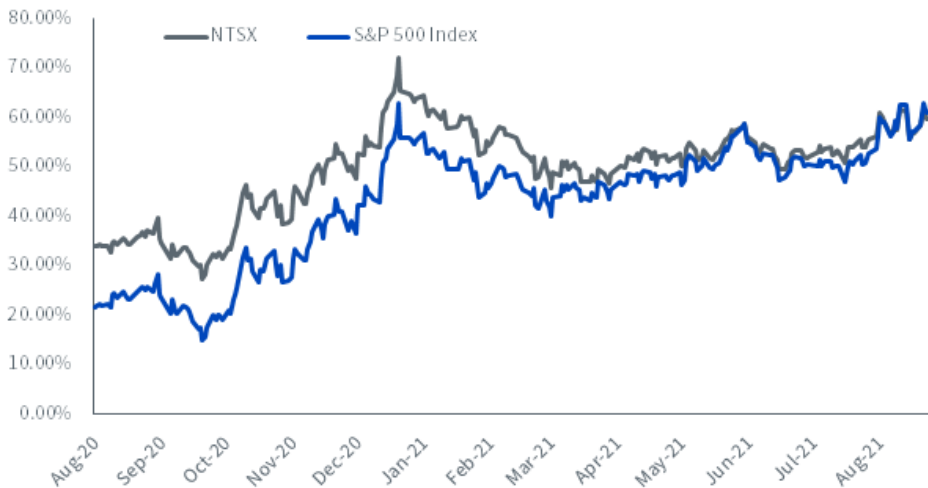
For definitions of terms in the image, please visit our [glossary](#).

### What Could Go Wrong: Rising Yields and Falling Stocks

While clearly an environment of rising [bond yields](#) and falling stocks would be the worst outcome for [absolute returns](#) of [NTSX](#), we’ve had a mini episode of that in the last three years, and [NTSX](#) has still tended to outperform long-only equity exposures.

This is primarily driven by the fact that losses on fixed income have historically tended to be smaller in magnitude than losses from equities. The net result may continue to be a less bumpy ride when equities swoon.

### Trailing 2-Year Return



Source: WisdomTree, as of 8/31/21 at NAV (Total Return). Past performance is not indicative of future results. You cannot invest directly in an index.

**Current Market Challenges**

Many investors are struggling with the lower expected returns in both stocks and bonds—with bond yields near historical lows and equity [valuations](#) near highs.

Fears of [inflation](#) have been rising—and investors are looking for strategies that might diversify either market volatility late in this [bull](#) cycle or inflation risk from all the money printing that has occurred around the world.

The challenge with adding assets like gold or commodities to portfolios: where do you fund the allocations from? Commodities might provide an inflation hedge to preserve purchasing power, but they do not provide the “risk-off feature” that bonds provide in a traditional market sense.

Utilizing capital-efficient strategies like [NTSX](#) at the core of equity allocations creates room to “stack on” any diversifying strategies—be it gold, commodities, managed futures or any creative [alpha](#)-oriented strategy seeking to add to returns or lower overall portfolio risk.

To illustrate this return stacking idea with an example:

- Swapping the Efficient Core [NTSX](#) for 10% traditional equities in a portfolio frees up space to trim traditional bond fund allocations by 6%, and then one can use that 6% to allocate to any return stream one wants to stack on top of their original allocations.
  - Specifically, at our 90/60 combination of stocks and bonds, the 10% swap results in 9% allocation to stocks and 6% to bond futures. Without trimming bond allocations, a 10% equity position swap with [NTSX](#) would result in a 1% lower equity allocation and 6% additional bond futures exposure.
- Managed futures strategies could be an ideal portfolio complement to a capital efficient core fund like [NTSX](#) due to managed futures’ historical ability to provide tactical hedges and short exposure to the markets.
- Other Efficient Core complements could be:
  - Further income-oriented allocations to potentially increase portfolio income
  - Other high-growth thematic if focused on capital appreciation mandates

**Conclusion**

We believe our [Efficient Core suite](#) delivers significant innovation to the market and helps investors get creative in their portfolio design and optimization.

Now with more than \$600 million of assets and a three-year live history, we see the time as ripe to reconsider how [NTSX](#) could enhance your portfolio.

Watch our latest video on Efficient Core Suite below.

<sup>1</sup>Corey Hoffstein, one of the advocates for a capital-efficient portfolio approach and who was quoted in Barron's about the need for such strategies ahead of our launch, recently penned a paper outlining the concept of return stacking in "Return Stacking: Strategies for Overcoming a Low Return Environment" with two colleagues at ReSolve Asset Management.

#### Important Risks Related to this Article

**This information must be preceded or accompanied by a prospectus; click [here](#) to view or download prospectus. We advise you to consider the Fund's objectives, risks, charges and expenses carefully before investing. The prospectus contains this and other important information about the Fund. Please read the prospectus carefully before you invest.**

There are risks associated with investing, including possible loss of principal. While the Fund is actively managed, the Fund's investment process is expected to be heavily dependent on quantitative models, and the models may not perform as intended. Equity securities, such as common stocks, are subject to market, economic and business risks that may cause their prices to fluctuate. The Fund invests in derivatives to gain exposure to U.S. Treasuries. The return on a derivative instrument may not correlate with the return of its underlying reference asset. The Fund's use of derivatives will give rise to leverage, and derivatives can be volatile and may be less liquid than other securities. As a result, the value of an investment in the Fund may change quickly and without warning, and you may lose money. Interest rate risk is the risk that fixed income securities, and financial instruments related to fixed income securities, will decline in value because of an increase in interest rates and changes to other factors, such as perception of an issuer's creditworthiness. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating<sup>TM</sup> metric each month by subtracting the return on a 90-day U.S. Treasury Bill from the fund's load-adjusted return for the same period and then adjusting this excess return for risk. The top 10% of the funds in each broad asset class receive five stars, the next 22.5% receive four stars, the next 35% receive three stars, the next 22.5% receive two stars and the bottom 10% receive one star. The Overall Morningstar Rating<sup>TM</sup> for a fund is derived from a weighted average of the performance figures associated with its three-, five- and ten-year (if applicable) Morningstar Rating<sup>TM</sup> metrics. The WisdomTree U.S. Efficient Core Fund (NTSX) was rated against the following number of U.S.-domiciled large-cap blend funds over the following time periods: 1,254. With respect to these large-cap blend funds, the WisdomTree U.S. Efficient Core Fund (NTSX) received a Morningstar Rating<sup>TM</sup> of five stars for the three-year period. Past performance is no guarantee of future results.

Morningstar Quartile Rankings are based on Morningstar Percentile Ranking in Morningstar Category, where 1% - 25% = first quartile(1); 26% - 50% = second quartile(2); 51% - 75% = third quartile(3); and 76% - 100% = fourth quartile(4). The Morningstar Percentile Ranking compares a Fund's Morningstar risk and return scores with all the Funds in the same Category, where 1% = Best and 100% = Worst.

Morningstar Risk is an assessment of the variations in a fund's monthly returns in comparison to similar funds. The greater the variation, the larger the risk score.

Morningstar Return is an assessment of the fund's excess return over a risk-free rate (the return of the 90-day Treasury bill) in comparison to similar funds.

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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.

#### Related Blogs

- + [Core Portfolios and Capital Efficiency](#)
- + [Solving the Portfolio Paradox: WisdomTree's Efficient Core Funds](#)
- + [Complementing an Efficient Core Strategy with Managed Futures](#)

#### Related Funds

- + [WisdomTree Emerging Markets Efficient Core Fund](#)
- + [WisdomTree International Efficient Core Fund](#)
- + [WisdomTree U.S. Efficient Core Fund](#)

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.

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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.

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

**Diversification** : A risk management strategy that mixes a wide variety of investments within a portfolio.

**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.

**Upside capture** : A measure of how one index performs during periods when a benchmark index is moving in the positive direction. A value of 100% indicates that both would tend to move upward at the exact same pace.

**Downside** : Currency depreciation.

**Bond yield** : Refers to the interest received from a bond and is usually expressed annually as a percentage based on its current market value.

**Absolute Return** : A measurement of an asset's return without considering risk.

**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.

**Inflation** : Characterized by rising price levels.

**Bullish** : a position that benefits when asset prices rise.

**Alpha** : Can be discussed as both risk-adjusted excess return relative to a specific benchmark, or absolute excess return relative to a benchmark. It is sometimes more generally referred to as excess returns in general.