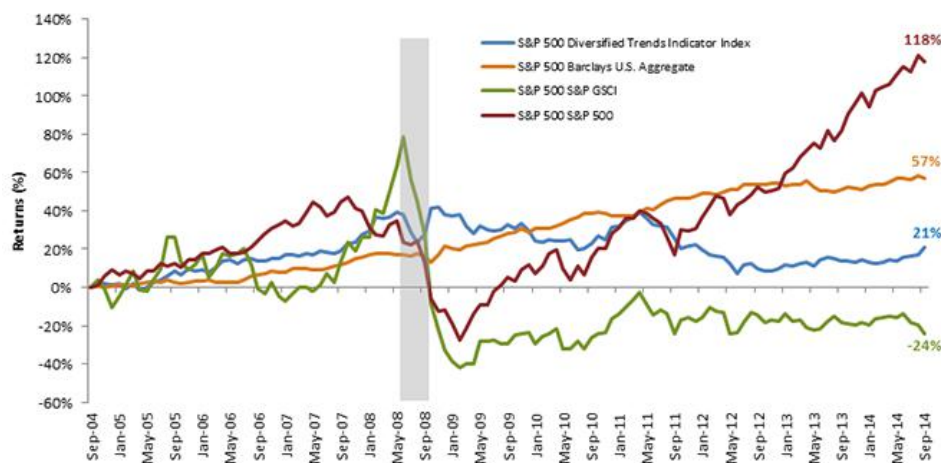


IS YOUR PORTFOLIO DIVERSIFIED ENOUGH?

Jeremy Schwartz — Global Chief Investment Officer
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With the broad U.S. equity markets off their most recent highs, some have started to draw parallels to 2008, and some are even starting to prepare their portfolios for a market correction.¹ Although we do not believe the markets are headed for a substantial correction or a repeat of 2008, we do think it is important for investors to learn from the past. One of the most crucial outcomes from 2008 was that many investors became more aware of the importance of downside protection and true diversification. Traditional allocations, as it turned out, generally did not provide enough diversification, and as the markets unwound, [correlations](#) between traditional asset classes increased. **Managed Futures Can Provide Multilevel Diversification** Like during the 2008 sell-off, correlations can also increase during positively trending markets, which is what we have witnessed over the past few years, ultimately decreasing the diversification benefits traditional allocations may provide. Institutional investors have long utilized [managed futures](#) strategies as a way to achieve diversification and performance potential in almost any market. Consider some of the benefits managed futures provide: • They are usually non- or negatively correlated to traditional assets. • Unlike [long-only](#) investments, managed futures employ long/[short](#) strategies designed to profit from both rising and falling markets. • They have the potential to perform in both [inflationary](#) and [deflationary](#) environments. **The DTI Index Has Performed—Even During a Crisis** As illustrated below, the [Diversified Trends Indicator™ \(DTI®\) Index](#) has delivered consistent performance over the past 10 years. More important, the DTI Index performance held up during the 2008 financial crisis as correlations between equity and fixed income securities tended to increase and everything moved down together. **DTI Index**



Sources: WisdomTree, Bloomberg, 9/30/04–9/30/14. Past performance is not indicative of future results. You cannot invest directly in an index.

Performance

Performance During a Crisis – The DTI Index was up 8.29% over the 2008 calendar year, impressive when compared to the S&P 500 Index return of -37.00%. During October 2008, the DTI Index was up 10.41%, compared to the S&P 500 Index return of -16.79%. **Low Correlations to Broad-Based Indexes** Over the past 10 years, the DTI Index had a correlation of -0.25 and -0.17 to the [Barclays U.S. Aggregate Index](#) and the S&P 500 Index, respectively. To put these numbers in perspective, the [MSCI EAFE Index](#) had a correlation of 0.12 and 0.89 to the Barclays U.S. Aggregate Index and the S&P 500 Index, respectively. The [MSCI Emerging Markets Index](#) had a correlation of 0.13 and 0.79 to the Barclays U.S. Aggregate Index and the S&P 500 Index, respectively.² **An Established Strategy—Now in the Exchange-Traded Fund (ETF) Structure** Traditionally, to access managed futures strategies, individuals would have to make

significant investments with hedge funds or commodity trading advisors (CTAs)—an expensive proposition. These investments typically charge a 20% performance fee on top of a 2% annual fee. Additionally, CTAs generally lack transparency, have limited liquidity and can introduce single-manager risk. The [WisdomTree Managed Futures Strategy Fund \(WDTI\)](#) is managed using a quantitative, rules-based strategy designed to provide returns that correspond to the performance of the DTI Index. These are some of the advantages we feel an ETF structure can provide: • Low fees of only 95 basis points³ • Intraday [liquidity](#) • Full transparency of strategy and holding • No investment minimums, sales loads or redemption fees • No K-1 filing **Learn more about our approach to alternatives [here](#).** ¹Sources: WisdomTree, Bloomberg; refers to the S&P 500 Index high on 9/18/14. ²Sources: WisdomTree, Bloomberg, 9/30/04–9/30/14. ³Ordinary brokerage commissions apply.

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. An investment in this Fund is speculative and involves a substantial degree of risk. One of the risks associated with the Fund is the complexity of the different factors that contribute to the Fund's performance, as well as its correlation (or non-correlation) to other asset classes. These factors include use of long and short positions in commodity futures contracts, currency forward contracts, swaps and other derivatives. 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. The Fund should not be used as a proxy for taking long-only (or short-only) positions in commodities or currencies. The Fund could lose significant value during periods when long-only indexes rise or short-only indexes decline. The Fund's investment objective is based on historic price trends. There can be no assurance that such trends will be reflected in future market movements. The Fund generally does not make intramonth adjustments and therefore is subject to substantial losses if the market moves against the Fund's established positions on an intramonth basis. In markets without sustained price trends or markets that quickly reverse or "whipsaw," the Fund may suffer significant losses. The Fund is actively managed, thus the ability of the Fund to achieve its objectives will depend on the effectiveness of the portfolio manager. Due to the investment strategy of this Fund, it may make higher capital gain distributions than other ETFs. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

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

Correlation : Statistical measure of how two sets of returns move in relation to each other. Correlation coefficients range from -1 to 1. A correlation of 1 means the two subjects of analysis move in lockstep with each other. A correlation of -1 means the two subjects of analysis have moved in exactly the opposite direction.

Managed futures : An alternative investment strategy in which futures contracts are used as part of the investment strategy.

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).

Inflation : Characterized by rising price levels.

Deflation : The opposite of inflation, characterized by falling price levels.

Barclays U.S. Aggregate Bond Index, 1-3 Year : This index is the 1-3 Yr component of the U.S. Aggregate index.

MSCI EAFE Index : is a market cap-weighted index composed of companies representative of the developed market structure of developed countries in Europe, Australasia and Japan.

MSCI Emerging Markets Index : a broad market cap-weighted Index showing performance of equities across 23 emerging market countries defined as "emerging markets" by MSCI.

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.