# TACKLE VOLATILITY WITH MANAGED FUTURES

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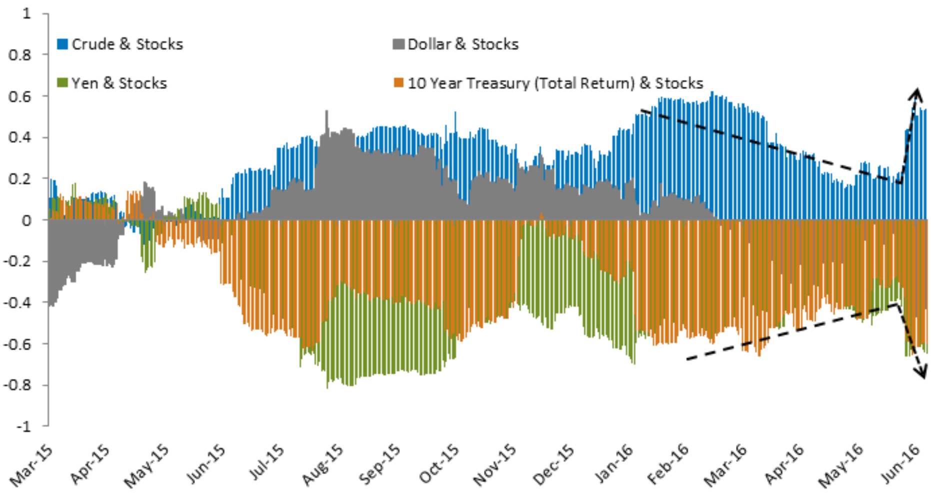
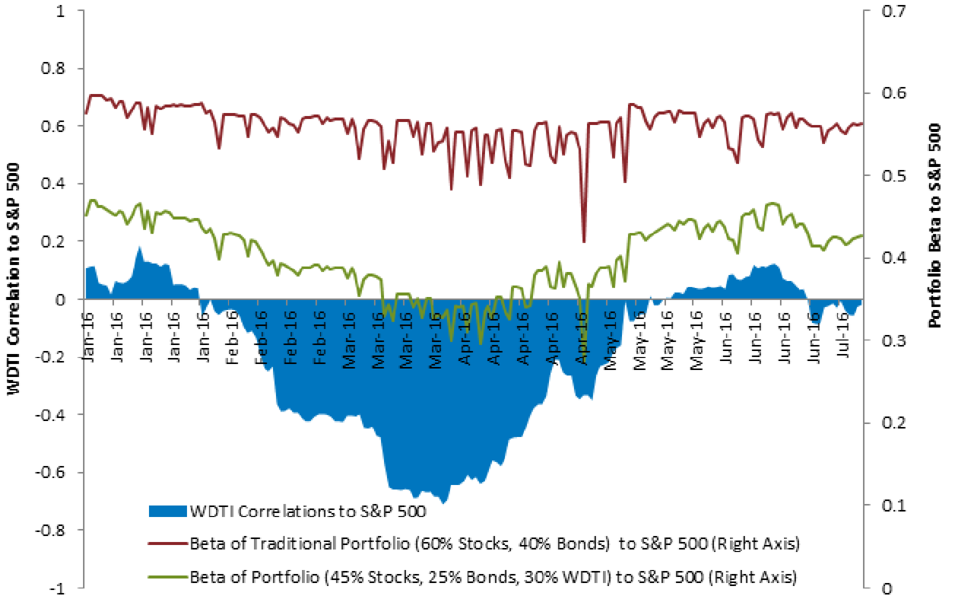
Markets are a challenging place, and many experienced investors know not to confuse a lack of volatility with stability. Markets love volatility, which often lurks behind the prevailing calm. But how should an investor deal with the rising volatility associated with the unexpected? Below, I highlight how diversification implemented through a long/short managed futures strategy could help investors during uncertain times. **Spiking Correlations in Times of Stress: The Search for Assets Offering Diversification** Stocks have had a topsy-turvy ride the past few weeks. In the U.S., Janet Yellen's deferment of a summer rate hike led to a rally in the stock market, while across the Atlantic the outcome of the historic UK Brexit referendum kept investors on their toes. Before the Brexit vote, markets moved up on days when it seemed that Britain might stay with the European Union (EU), while global markets behaved nervously on days when it seemed Britain would exit. Finally, as the results came in on June 24, Britain's decision to leave the EU led to global jitters, and the S&P closed down 3.59% for the day.[1] As analysts were still determining the complexities and settlement for the messy divorce, shock waves could be felt in markets through the following week. Investors usually can see correlations rising across assets when the markets are jittery. Most traditional assets responded to volatile post-Brexit markets by becoming highly correlated to the S&P 500, making it a challenge for traditional investors to keep their portfolios diversified. Bonds and the yen are both negatively correlated to the S&P 500. It's understandable why this is true of bonds—a flight to safety makes U.S. fixed income securities, which can keep their value, seem more attractive. Why the yen offers a "safe-haven" during volatile periods, as we've seen this year, is harder to understand, but that relationship also held strongly following the Brexit vote. **Rising Correlation Associated With Post Brexit Fears** *60 Day Rolling Asset Correlations*




Source: Bloomberg, as of 07/06/16. Past performance is not indicative of future results. You cannot invest directly in an index.

Stocks represented by S&P 500 Index, crude by Generic 1st Brent Crude Oil Contracts, dollar by Federal Reserve U.S. Trade-Weighted Major Currency Dollar Index, yen by Japanese yen measured against USD exchange rates, 10-Year Treasury represented by Ryan Labs Returns Treasury Yield Curve 10-Year Index. **Managed Futures Can Offer Diversification and Lower Portfolio Beta Compared with S&P 500** We know from Finance 101 that diversification is key for smart investments. However, the million-dollar question is, how do we find market-neutral behavior even in times of panic? One answer could be a strategy with risk/return drivers that are different from traditional equities and could therefore be uncorrelated to markets. The

WisdomTree Managed Futures Strategy Fund (WDTI) seeks to achieve positive total returns that are not directly correlated to broad market equity or fixed income returns in rising or falling markets. This is achieved through an investment mechanism that can go long or short in a basket of commodities, interest rates and currencies. The risk/return drivers of the WisdomTree Managed Futures Strategy Fund are very different from that of traditional stock/bond portfolios. The chart below shows WDTI consistently had almost no correlations (blue area, left axis), even in the panic associated with Brexit, when we saw everything else getting more correlated. This could be a valuable solution to the diversification problem. **WTDI's Diversification Lowering Beta Of a Traditional 60/40 Approach** Stocks are represented by the S&P 500 Index holdings, and bonds are represented by the Barclays US Aggregate Bond Index




Source: Bloomberg, as of 07/06/16. Past performance is not indicative of future results.

One benefit of higher diversification is lower volatility. Measured using the beta of the S&P 500 to gauge the sensitivity to traditional equities, the chart above shows how a traditional 60%/40% equity/bond portfolio investor can also significantly lower portfolio beta to markets by allocating to a strategy like WDTI.WisdomTree believes investors could use managed futures for the potential to provide diversification and a lower portfolio beta. The WisdomTree Managed Futures Strategy Index uses a quantitative, rules-based approach that can diversify your equity beta. We think WDTI could be an answer for investors looking for an asset class that offers the potential for total returns with lower volatility and higher diversification, especially during times of stress in the market. Learn more about the WisdomTree Managed Futures Index.

[1]Source: Bloomberg.

**Important Risks Related to this Article**

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 noncorrelation) to other asset classes. These factors include use of long and short positions in commodity futures contracts, currency forward contracts, swaps and other derivatives. Derivatives can be volatile and may be less liquid than other securities and more sensitive to the effects of varied economic conditions.

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. 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.

Commodities are generally volatile and are not suitable for all investors.

Diversification does not eliminate the risk of experiencing investment loss.

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

**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.

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

**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.

**Rate Hike** : refers to an increase in the policy rate set by a central bank. In the U.S., this generally refers to the Federal Funds Target Rate.

**Brexit** : an abbreviation of "British exit" that mirrors the term Grexit. It refers to the possibility that Britain will withdraw from the European Unio.

**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.

**Safe-haven** : Characterized by being a potentially desirable focal point of investment flows during periods of increased volatility and market risk. Safe-haven is not synonymous with risk-free.

**Generic 1st Brent Crude Oil Contract** : An index created from continuously rolling generic or the immediate 1st month oil contract. It is supposed to closely reflect historical prices of crude oil in the market.

**Ryan Labs Returns Treasury Yield Curve 10-Year Index** : An index created by Ryan Labs to reflect total returns of 10 Yr US Treasuries.

**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.

**Market neutral** : Strategy that seeks to avoid market risk by hedging a percentage equal to total long exposure.

**Interest rates** : The rate at which interest is paid by a borrower for the use of money.

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