EMBRACE VOLATILITY: QUALITY AND INCOME ARE YOUR FRIENDS

Jeremy Schwartz — Global Chief Investment Officer,Joe Grogan — Head of Distribution, Americas
07/07/2023

Market volatility provides a slew of opportunities and challenges for investment managers whose role during this time is to calm clients while determining the best path forward with their portfolios.

While banks, wirehouses and RIAs are pouring resources into developing competitive wealth management offerings, many are focusing too much on providing products and not enough on curating the client experience during times of volatility. More and more, investors are seeking quality advice, premiere expertise and straightforward information.

Periods of volatility bring the opportunity to meet this need and it is during this time that managers need to act. Advisors should be doing everything they can to optimize their businesses by making strategic decisions to streamline operations so they can spend more time with their clients.

Finding the right strategy, though, is not quite as simple as prompting ChatGPT to give you the best investment playbook. While some firms are quick to put all their eggs in the artificial intelligence (AI) and ChatGPT baskets – citing productivity benefits – humans are still valuable and important in the process.

A "shared CIO" arrangement serves as a technology and productivity enhancer, providing advisors with more tools, insights and data than they might have access to on their own. It enables advisors to tap into a broader team with analysis, research and insights without the operational challenges of bringing that team on in-house; and it empowers advisors to do what they're best at: client services. Particularly during times of volatility and stress, this approach can be a highly valuable asset.

Evaluation and evolution are crucial, especially in times of high volatility, and there are a few strategies both advisors and investors can employ during this, and future, periods of volatility:

- **Manage cash more strategically. Chances are,** there are excessive amounts of cash sitting in checking accounts earning 0%. If you haven't looked at floating rate treasuries for your cash management, there is an opportunity to earn over 5% today while banks are failing to pass Fed rate hikes to checking accounts.

- **Look at profitability and quality. Review your portfolio, look at your equity holdings and screen for profitability and quality.** An overly tight Fed that is creating volatility can hurt the most cyclical stocks. Companies with strong balance sheets, higher free cash flow and low debt have lower refinancing risk and are less vulnerable to profit slowdowns with higher rates caused by Fed tightening.

- **Take advantage of the higher yields in fixed income.** Yields on quality-screened high-yield bonds can deliver over 8% and that may approach similar returns on equities given elevated market valuations. Quality screens are important to do due diligence on companies that you're investing in. You don't need an active manager to conduct such screens any longer, as some index-based ETFs apply screens for quality within the high-yield bond universe today.

- **When market returns are muted or negative, look at strategies that incorporate downside market cushions, like options selling.** Because this is more complicated for the average investor, leveraging an asset managers or a "shared CIO" approach can help walk you through the benefits. If expectations for returns are subdued, writing options can turn higher volatility into higher income levels that provide downside market cushions.

Advisors know they often need to wear multiple "hats" to deliver a superior wealth management solution. These hats are critical to running their business. But the burden of all these hats can make an advisor feel like the business is running them, especially during sustained periods of volatility.

This brings us to our conclusion: outsourcing wealth management services, whether via a "shared CIO approach," or AI, will increase dramatically in the coming years. The wealth management practice that can capture this experiential magic in its wealth management offering will be the firm that succeeds.

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.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.

You cannot invest directly in an index.

DEFINITIONS

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

Registered Investment Advisor (RIA) : A firm that advises clients on securities investments and may manage their investment portfolios. RIAs are registered with either the U.S. Securities and Exchange Commission (SEC) or state securities administrators.

Artificial intelligence : machine analysis and decision-making.

Floating Rate Treasury Note : a debt instrument issued by the U.S. government whose coupon payments are linked to the 13-week Treasury bill auction rate.

Federal Reserve : The Federal Reserve System is the central banking system of the United States.

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.

Cyclical stocks : Refers to stocks in the Consumer Discretionary, Energy, Industrials, Materials, Financials and Information Technology sectors.

Balance sheet : refers to the cash and cash equivalents part of the Current Assets on a firms balance sheet and cash available for purchasing new position.

Cash flows : a measure of how much cash a business generates after taking into account all the necessary expenses, including net capital expenditures.

Fed tightening : Refers to the Federal Reserve enacting monetary policies that have the overall impact of reducing the availability of credit, which is widely thought to have the potential to slow economic growth.

High Yield : Sometimes referred to as "junk bonds," these securities have a higher risk of default than investment-grade securitie.

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.

Quality : Characterized by higher efficiency and profitability. Typical measures include earnings, return on equity, return on assets, operating profitability as well as others. This term is also related to the Quality Factor, which associates these stock characteristics with excess returns vs the market over tim.