
SEEKING MODERN ALPHA: INTRODUCING OUR NEW QUANTITATIVE ACTIVE STRATEGY, QSY

Jeremy Schwartz – Global Chief Investment Officer
12/20/2017

WisdomTree's launch of its first 20 exchange-traded funds (ETFs) more than a decade ago was centered on performance. Our original [alpha](#)-seeking strategies were packaged into Indexes, but the goals of those Indexes were clear: seek to provide better [risk-adjusted](#) total returns than standard [market capitalization-weighted](#) benchmarks over the coming decades. Many of these original strategies were built to be very broad-based, relatively low-[tracking-error](#) strategies.

Starting with the June 2017 launch of the [WisdomTree U.S. Multifactor Index](#), which was designed to create a diversified set of alpha signals but take more active risk and tracking error, WisdomTree has been pushing out the pursuit for higher potential value-added strategies.

With the repositioning of one of our legacy value strategies (EZY) as our new [Quality Shareholder Yield ETF, QSY](#), WisdomTree has taken the pursuit of modern alpha a step further, [running a quantitative active strategy](#).

Actively Managed: Run Quantitatively with Risk Management Controls

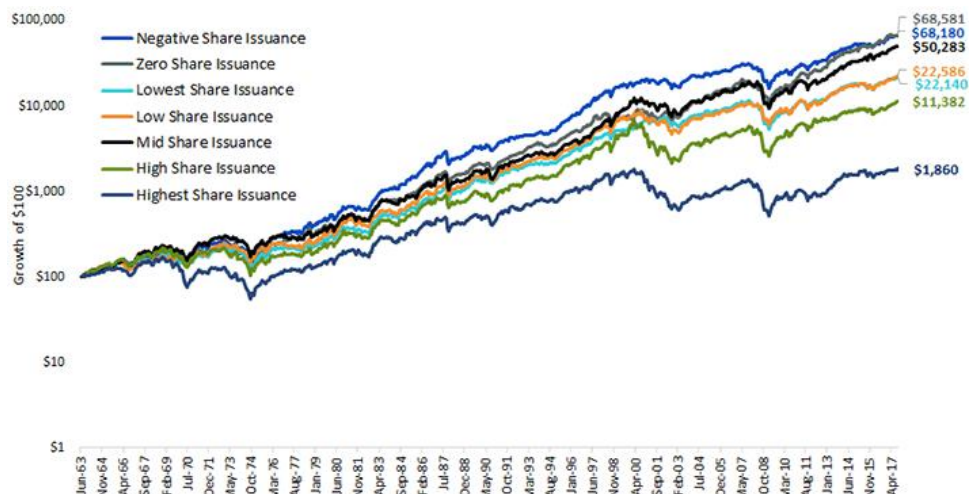
With [active management](#) comes a focus on the proverbial five P's: philosophy, process, portfolio, performance and people.

The **philosophy** is simple: WisdomTree believes total [shareholder yield](#) is one of the premiere [valuation](#) guideposts delivering long-term value to portfolio construction, while quality and profitability sorts of the market also provide a sustainability check to these shareholder yield sorts of the market. If you want to invest in companies earning high returns on invested capital, quality sorts of the market accomplish that.

There is a lot of research on [buybacks](#) and shareholder yield being tied to performance: Patrick O'Shaughnessy wrote this post on high-conviction [buybacks](#) a few years back.

Fama and French added sorts of the market by stock buybacks to their data library, and the long-term returns to high-buyback companies compared to share issuers is fairly dramatic.

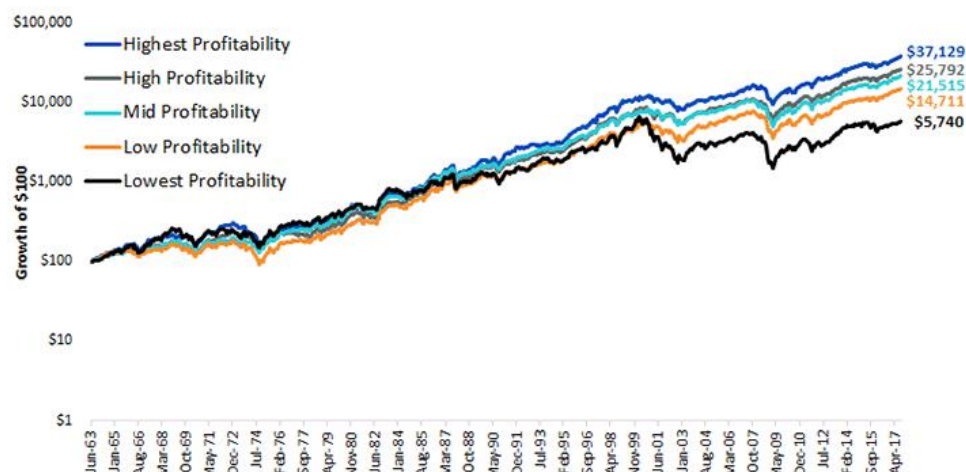
Share Issuance Quintiles



Sources: WisdomTree, Ken French Data Library, 9/30/17. Past performance is not indicative of future results. You cannot invest directly in an index.

Research on quality and profitability as an indicator also shows long-term value added, and WisdomTree believes there are further benefits from combining elements of both of these strategies into a portfolio-selection process.

Operating Profitability Quintiles



Sources: WisdomTree, Ken French Data Library, 9/30/17. Past performance is not indicative of future results. You cannot invest directly in an index.

Process

The portfolio construction utilizes a quantitative approach to ranking stocks on their combined attributes of quality with minimum shareholder yield requirements.

- We start with a broad universe of large- and mid-capitalization stocks and score stocks on multiple quality criteria—factors such as returns on invested capital and [free cash flow](#)-based metrics.

- But we also have a preference for stocks with a minimum shareholder yield, with the portfolio tilting weight toward stocks with the highest-conviction buybacks and highest shareholder yields.
- The portfolio has an equal weighted-like yield orientation to allocating weight-subject to risk controls and overall portfolio balance.
- The portfolio had a primary rebalancing completed in December but will also have adjustments made on a quarterly basis
- Risk controls and portfolio adjustments: The investment model is evaluated for sector and industry tilts and for risk indicators and opportunities in individual stocks. The team has discretion to adjust the portfolio to balance risk and return objectives from the pure quantitative model output.

Portfolio Characteristics

Investors can see the full details of QSY's holdings every day on our website. The fundamental attributes of the original expected holdings show that this basket of stocks trades at a relatively lower market multiple than the [S&P 500 Index](#), despite the basket having a higher profitability and quality gauge than the [S&P 500](#).

As of the November 30th screening date, these stocks had a [net buyback yield](#) over the last 12 months just shy of 5%, and the combined dividend and net buyback yield is close to 7%, approximately 300 [basis points \(bps\)](#) higher than the S&P 500. These are characteristics we believe are long-term powerful drivers of total returns.

People

The team driving the underlying investment process and ongoing research to maintain and enhance the process is the same research team that has been building our equity indexes for more than a decade. Our team has grown from its original days, and we have a more quantitative bent to building out the research team, data collection and investment protocols.



Jeremy Schwartz, CFA - Director of Research - Jeremy is responsible for the WisdomTree equity index construction process and oversees research across the WisdomTree family. Prior to joining WisdomTree, Jeremy was Professor Jeremy Siegel's head research assistant and helped with the research and writing of *Stocks for the Long Run* and *The Future for Investors*. Jeremy is a graduate of The Wharton School of the University of Pennsylvania.



Tripp Zimmerman, CFA - Associate Director of Research - Tripp leads the firm's index group, primarily responsible for index creation, maintenance and reconstitution. Tripp graduated from The University of North Carolina at Chapel Hill with dual degrees in Economics and Philosophy.



Josh Russell, PhD, CFA - Quantitative Equity Strategist - Josh leads the firm's quantitative equity group. He earned a PhD in Electrical and Computer Engineering from The University of California, Santa Barbara. He also holds Master's Degrees in Economics and Electrical Engineering and a Bachelor's Degree in Electrical Engineering.



Alejandro Saltiel, CFA - Quantitative Research Analyst - Alejandro is responsible for quantitative research on WisdomTree's products and global equity markets. He received his Master's in Financial Engineering degree from Columbia University in 2017 and a Bachelor's in Engineering degree from the Instituto Tecnológico Autónomo de México (ITAM) in 2010.



Christopher Carrano - Quantitative Research Analyst - As a member of WisdomTree's quantitative group, Chris works closely with data in order to construct and monitor WisdomTree investment products and provide investment insights to WisdomTree clients. He graduated from Columbia University with a B.A. in Economics in 2014.

WisdomTree believes combining the quantitative nature that our indexing business was based on with established investment procedures we can utilize in structuring the ETF to leverage our index-based routines creates a unique, modern alpha-oriented approach for active equity ETFs. WisdomTree is excited to be pioneering this stage for actively managed portfolios in the ETF structure.

Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. Funds focusing their investments on certain sectors may be more vulnerable to any single economic or regulatory development. This may result in greater share price volatility. 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. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

Click [here](#) for QSY standardized performance.

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](#).

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

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.

Risk-adjusted returns: Returns measured in relation to their own variability. High returns with a high level of risk indicate a lower probability that actual returns were close to average returns. High returns with a low level of risk would be more desirable, as they indicate a higher probability that actual returns were close to average returns.

Market capitalization-weighting: Market cap = share prices x number of shares outstanding. Firms with the highest values receive the highest weights in approaches designed to weight firms by market cap.

Active manager: Portfolio managers who run funds that attempt to outperform the market by selecting those securities they believe to be the best.

Shareholder Yield: A data point that references the combination of dividend yield and buyback yield.

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.

Buyback: When a company uses its own cash to purchase its own outstanding shares; may positively impact the share price.

Free Cash Flow: A measure of how much cash is left in the company after taking into account all the necessary expenses, including net capital expenditures.

Net Buyback Yield: A company's net share buyback is the difference between the capital raised by issuing new shares and the money the company spent on buying back any outstanding shares. A positive net share buyback means that more was spent on buying back existing shares than received from issuing new shares. Net buyback yield is the amount of a company's net buybacks divided by its market capitalization. Please note that net buyback yield does not represent a dividend paid by the company.

Basis point: 1/100th of 1 percent.