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# HOW THIS LONG/SHORT ETF BEAT 97% OF ITS PEERS SINCE INCEPTION

Jeremy Schwartz — Global Chief Investment Officer

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With U.S. markets near all-time highs, and many investors expressing concerns about market [valuations](#), I thought it would be a good time to review the case for the [WisdomTree Dynamic Long/Short U.S. Equity Fund \(DYLS\)](#), a low-cost<sup>1</sup>, [long/short](#) exchange-traded fund (ETF) we developed that may become increasingly relevant for the current market environment.

DYLS, while having gone live only a little over a year ago, has been performing remarkably well, compared to its peer set of long/short funds. DYLS has a portfolio grounded in the academic factor research that is gaining popularity, and the characteristics of the portfolio today are what many investors would find attractive.

These attributes include:

- [Quality](#) Tilts: Having higher profitability figures such as [return on equity \(ROE\)](#) and stronger underlying [dividend](#) growth trends
- [Value](#) Tilts: Having lower [price-to-earnings \(P/E\) ratios](#) and higher [dividend yields](#)
- These tilts being done in a sector-neutral fashion, so the portfolio is not just a value strategy or a quality strategy through sector views.

Starting off, these characteristics help understand the selection process. The strategy looks to find less expensive quality stocks in every sector. But it also looks to [dynamically hedge](#) market exposure when fundamentals are deteriorating and valuations are high.

## Lower-Fee Alternative Strategy

Our main motivation behind this strategy: many of the funds in this category of long/short investments are quite expensive, and we wanted to be among the low-cost leaders in this category. With DYLS among the top five lowest expense ratios, we believe we have achieved this motive.

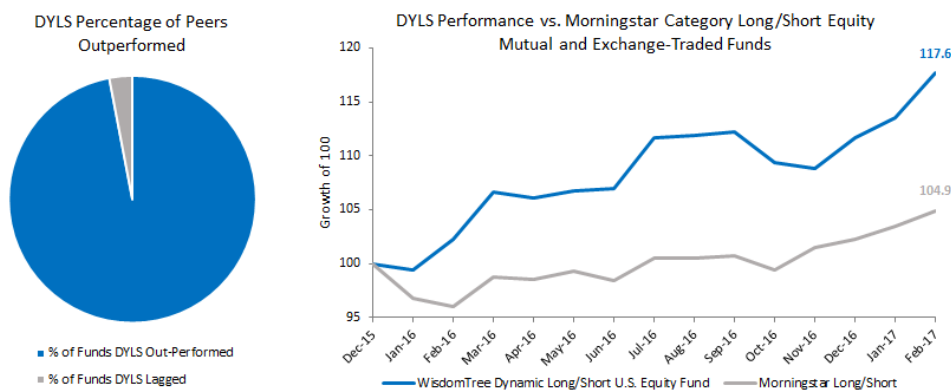
In a category where funds may charge performance fees and average net expense ratios that are more than three times our expense ratio, that gives us a great head start.

Name/MS Category	Annual Net Exp. Ratio	Annual Gross Exp. Ratio
U.S. OE Long/Short Equity	1.78%	3.11%
WisdomTree Dynamic Long/Short U.S. Equity Fund	0.48%	0.53%

Sources: WisdomTree, Morningstar, as of 2/28/17. The DYLS net expense ratio reflects a contractual waiver of 0.05% through October 31, 2017. Morningstar U.S. Open End Long/Short Equity refers to mutual funds and exchange-traded funds with the ability to be both long and short securities as a way of generating greater risk-adjusted performance.

## Beating 97% of Peers

DYLS launched in December of 2015, right ahead of a drop in the market in early 2016. Interestingly, our signals on DYLS started off from a [hedged](#) standpoint and the Fund launched fully market neutral. Our [hedge ratio](#) is adaptive and can range from being fully invested to fully market neutral, and the hedge ratio came off in March. This strong start in the first three months has led the Fund to be ranked #11 of 299 different Morningstar long/short funds based on risk adjusted returns since its inception—and beating 97% of its competition.



Sources: Morningstar, WisdomTree, 12/23/15–2/28/17. 12/23/15 represents the DYLS inception date. Past performance is not indicative of future results. 2016 Morningstar, Inc. All rights reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

Average Annual Total Returns as of 2/28/17					
	1-Year	Common Period	3-Year	5-Year	10-Year
WisdomTree Dynamic Long/Short U.S. Equity Fund	15.04%	14.95%	N/A	N/A	N/A
S&P 500 Index	24.98%	15.82%	10.63%	14.01%	7.62%
Morningstar Long/Short Equity	9.51%	4.59%	2.27%	4.92%	4.43%

Sources: Morningstar, WisdomTree, 2/28/07–2/28/17. "Common period" refers to 12/31/15–2/28/17 due to availability of Morningstar category performance data.

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 [www.wisdomtree.com](http://www.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. Index performance does not represent actual fund or portfolio performance. A fund or portfolio may differ significantly from the securities included in the index. Index performance assumes reinvestment of dividends but does not reflect any management fees, transaction costs or other expenses that would be incurred by a portfolio or fund, or brokerage commissions on transactions in fund shares. Such fees, expenses and commissions could reduce returns.

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

## Conclusion

DYLS is pretty unique in the ETF structure. Many firms have long/short strategies in hedge fund or mutual fund structures, where they typically charge much higher fees. I believe one of the growth areas for ETFs will be more systematic factor strategies that also look to add short positions in the market to hedge risk. If one can add value both on the long side of the portfolio and then reduce risk on the hedges—which DYLS has done in real time—one has the potential to create one of the best low-cost long/short strategies around. We believe DYLS could interest those looking at lower-[volatility](#) alternatives to U.S. market exposure.

<sup>1</sup>Ordinary brokerage commissions apply.

#### **Important Risks Related to this Article**

There are risks associated with investing, including possible loss of principal. The Fund invests in derivatives, including as a substitute to gain short exposure to equity securities. 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. Derivatives used by the Fund to offset its exposure to market volatility may not perform as intended. The Fund may engage in “short sale” transactions and will lose value if the security or instrument that is the subject of a short sale increases in value. A fund that has exposure to one or more sectors may be more vulnerable to any single economic or regulatory development. This may result in greater share price volatility. The composition of the Index is heavily dependent on quantitative models and data from one or more third parties, and the Index may not perform as intended. The Fund invests in the securities included in, or representative of, its Index regardless of their investment merit, and the Fund does not attempt to outperform its Index or take defensive positions in declining markets. 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](#)

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You cannot invest directly in an index.

## **DEFINITIONS**

**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.

**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).

**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 time.

**Return on Equity (ROE)** : Measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

**Dividend** : A portion of corporate profits paid out to shareholders.

**Value** : Characterized by lower price levels relative to fundamentals, such as earnings or dividends. Prices are lower because investors are less certain of the performance of these fundamentals in the future. This term is also related to the Value Factor, which associates these stock characteristics with excess returns vs the market over time.

**Price-to-earnings (P/E) ratio** : Share price divided by earnings per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested.

**Dividend yield** : A financial ratio that shows how much a company pays out in dividends each year relative to its share price.

**Dynamic Hedge** : Strategy in which a currency hedge can be varied (as opposed to targeting a constant level) and change over the course of time.

**Hedge** : Making an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as a futures contract.

**Hedge Ratio** : The specified percentage of currency exposure being hedged, with 0% indicating that none of the currency exposure is being hedged and 100% indicating that all of the currency exposure is being hedged.

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