

# A PURPOSE-FILLED PORTFOLIO

Scott Welch — Chief Investment Officer – Model Portfolios

06/25/2020

This article is relevant to financial professionals who are considering offering model portfolios to their clients. If you are an individual investor interested in WisdomTree ETF Model Portfolios, please inquire with your financial professional. Not all financial professionals have access to these model portfolios.

*To everything (turn, turn, turn)  
There is a season (turn, turn, turn)  
And a time to every purpose, under heaven  
A time to build up, a time to break down  
A time to dance, a time to mourn  
A time to cast away stones, a time to gather stones together  
To everything (turn, turn, turn)  
There is a season (turn, turn, turn)  
And a time to every purpose, under heaven  
(From "Turn, Turn, Turn" by Pete Seeger, 1959, covered by The Byrds, 1965)*

As advisors seek new ways of building and managing portfolios in the wake of the pandemic events of 2020, one clear trend in the advisor community is the adoption of an "outcome-focused" portfolio construction approach. What does this mean?

The high net worth consulting model is a direct descendant of the institutional model. Unfortunately, the institutional model has certain characteristics (e.g., infinite time horizon, oversight by committee and tax exemption) that do not apply to individuals—certainly not with any consistency. Rather, most individuals are goal-oriented and, in general, share the same three objectives, to differing degrees. They want to:

1. Maintain or improve their current lifestyle,
2. Not outlive their money and be able to fund their legacy objectives, and
3. Optimize fees and taxes along the way.

The concept behind outcome-focused models is to build portfolio "sleeves" or modules that target specific investment objectives, rather than the usual approach of optimizing the [risk](#)/return trade-off of the overall portfolio—a statistical portfolio property that may or may not have any real meaning or relevance to the average investor.

These "outcome-focused" sleeves also align well with the fact that many advisors still want to be actively involved in the portfolio construction aspect of their practices (for many, it is why they got into the wealth management business to begin with—they love investing).

By accessing portfolio sleeves designed to meet specific objectives or outcomes, advisors have an expanded toolkit from which to choose in constructing customized client portfolios, without outsourcing the entirety of that function.

At WisdomTree, [we offer a variety of outcome-focused portfolios](#), each designed to address targeted investor objectives. They include:

1. **Global Dividends**, for advisors seeking an equity allocation that attempts to maximize current income/yield while controlling for risk. This portfolio sleeve may act as a stand-alone equity portfolio or make a nice complement to the overall equity portfolio for those advisors seeking to maximize current yield generation.
2. **Global Multi-Asset Income**. In today's yield-starved market environment, many advisors are seeking to maximize the overall current income potential of their portfolios to help end clients maintain their current lifestyle. This portfolio combines yield-focused equities, fixed income and other yield-generating strategies (e.g., [master limited partnerships \(MLPs\)](#), [option](#)-based strategies, preferred securities, etc.) in an attempt to maximize current income

without taking unnecessary risk.

3. **Volatility Management**, for advisors seeking to create a more “endowment-like” feel for their portfolios by including less traditional or lower-[correlated](#) strategies. These strategies might include, but are not limited to, short-biased, equity hedged, merger [arbitrage](#) and [beta](#)-reducing option-based strategies. We manage an overall Endowment Model that incorporates these types of strategies into a multi-asset total portfolio. This more focused portfolio sleeve is designed to complement an already existing stock/bond portfolio, allowing advisors to create a similar risk and return profile as our Endowment Model while maintaining more control over the traditional stock and bond portfolio.
4. **Multi-Factor Equity**. This portfolio is explicitly diversified across multiple risk factors in an attempt to lower overall volatility. It can act as a stand-alone portfolio for advisors seeking a lower volatility equity solution or as a complementary sleeve within a broader overall equity portfolio. Over the past several years, “[low volatility](#)” has become a very popular risk factor. The result is that securities considered to be “low vol” have become increasingly expensive (i.e., [valuations](#) have increased). By diversifying across multiple risk factors (e.g., [size](#), [value](#), [quality](#), [momentum](#), etc.), we believe our multi-factor model can potentially deliver a similar “low vol” experience using much more attractively priced securities.

As with all WisdomTree Model Portfolios, these outcome-focused sleeves have certain common characteristics:

1. They are global in nature,
2. They consist entirely of ETFs, which helps to optimize fees and taxes,
3. They are “open architecture”—that is, they include both WisdomTree and third-party strategies. We do this to optimize the active and passive mix of strategies within the portfolio and to make sure that the portfolios are [risk factor diversified](#).
4. These sleeves can be “mixed and matched” with each other to create *total portfolio solutions*, or they can serve as complementary “add in” sleeves within other third-party models, and
5. They carry no strategist fee—our revenue derives entirely from the expense ratios of the WisdomTree products included in the portfolio.

We will consider adding additional outcome-focused portfolios to our solution set as our advisor clients identify specific “pain points” they want to solve for within broader investment mandates.

We think the wealth management industry is evolving away from evaluating investment performance on a *benchmark-relative basis and toward an objective of solving for specific investor goals*.

We believe our Outcome-Focused Model Portfolios can help advisors differentiate themselves in this evolving landscape.

#### Important Risks Related to this Article

There are risks associated with investing, including the possible loss of principal. Diversification does not eliminate the risk of experiencing investment losses. Using an asset allocation strategy does not assure a profit or protect against loss.

This material does not constitute any specific legal, tax or accounting advice. Please consult with qualified professionals for this type of advice. This material is not intended to be a recommendation or advice by WisdomTree. WisdomTree does not undertake to provide impartial investment advice or give advice in a fiduciary capacity. Further, WisdomTree receives revenue in the form of advisory fees for our exchange-traded funds, and WisdomTree is also entitled to receive a fee from certain model platform providers for licensing model portfolios.

WisdomTree Asset Management, Inc., is an investment advisor registered with the Securities Exchange Commission and a wholly owned subsidiary of WisdomTree Investments, Inc.

For financial professionals: In the event that you subscribe to receive a WisdomTree Model Portfolio, you will receive investment ideas from WisdomTree in the form of a model portfolio. The information is designed to be utilized by you solely as a resource, along with other potential sources you consider, in providing advisory services to your clients. WisdomTree’s Model Portfolios are not intended to constitute investment advice or investment recommendations from WisdomTree. WisdomTree is not responsible for determining the securities to be purchased, held and/or sold for your clients’ accounts, nor is WisdomTree responsible for determining the suitability or appropriateness of a model portfolio or any securities included therein for any of your clients. WisdomTree does not have investment discretion and does not place trade orders for any of your clients’ accounts. Information and other marketing materials provided to you by WisdomTree concerning a model portfolio—including holdings, performance and other characteristics—may not be indicative of your client’s actual experience from investing in one or more of the funds included in the model portfolio.

The model portfolios, allocations and data are subject to change.

For end users: WisdomTree's Model Portfolios are not intended to constitute investment advice or investment recommendations from WisdomTree. Your investment advisor may or may not implement WisdomTree's Model Portfolios in your account. WisdomTree is not responsible for determining the suitability or appropriateness of a strategy based on WisdomTree's Model Portfolios. WisdomTree does not have investment discretion and does not place trade orders for your account. This material has been created by WisdomTree, and the information included herein has not been verified by your investment advisor and may differ from information provided by your investment advisor. The model portfolios, allocations and data are subject to change.

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](http://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, Kara Marciscano, 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

**Risk** : Also standard deviation, which measures the spread of actual returns around an average return during a specific period. Higher risk indicates greater potential for returns to be farther away from this average.

**Master limited partnership (MLP)** : Investment structure where holdings typically must derive most of their cash flows from real estate, natural resources or commodities, combining the tax benefits of a partnership—taxes occur when holders receive distributions—with the liquidity of a publicly traded company.

**Stock options** : Conveys to an executive the right to buy a number of shares of his firm's stock at a pre-specified price at some time in the future. Stock option holders are not eligible for any dividend distributions to shareholders.

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

**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.

**Arbitrage Mechanism** : The ability to compare the price of an ETF and its underlying basket and exchange one for the other utilizing the creation and redemption process.

**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.

**Low Volatility** : Characterized by lower standard deviation of price over time. This term is also associated with the Low Volatility Factor, which associates lower volatility stocks with better risk-adjusted returns vs the market over time.

**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.

**Size** : Characterized by smaller companies rather than larger companies by market capitalization. This term is also related to the Size Factor, which associates smaller market-cap stocks with excess returns vs the market over time.

**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.

**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.

**Momentum** : Characterized by assets with recent price increase trends over time. This term is also associated with the Momentum Factor which associates these stock characteristics with excess return vs the market over time.