

U.S. MULTIFACTOR IN VOLATILE TIMES

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After the [Russell 3000 Index](#) rose an impressive 25.66% last year, the index has now fallen close to 20% from its January 3, 2022, peak and is now flat over the last 17 months.

During this period of high [volatility](#), strategies targeting factor diversification and lower volatility have exhibited differentiated performance and reduced correlation to equity market swings.

WisdomTree U.S. Multifactor Fund

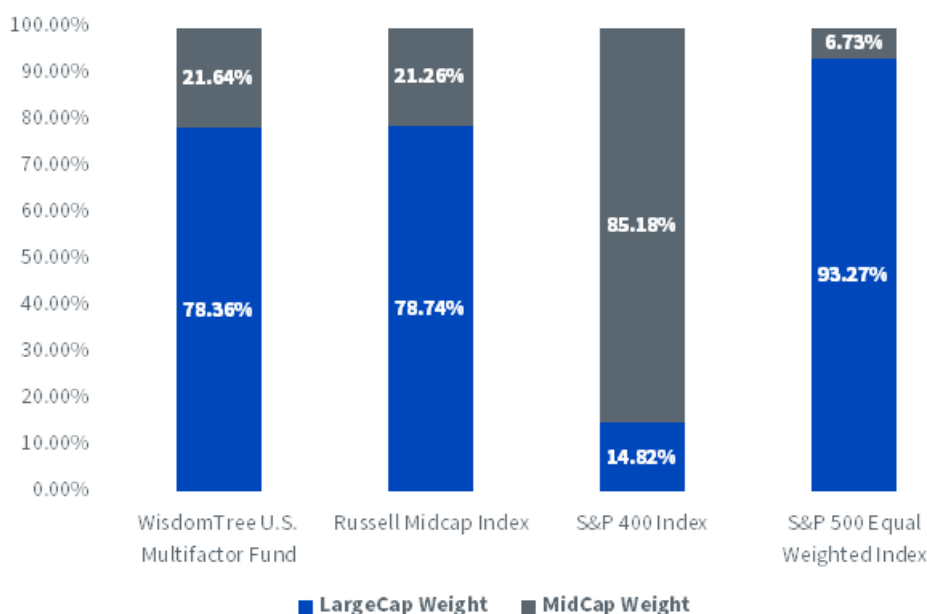
The [WisdomTree U.S. Multifactor Fund \(USMF\)](#) seeks to provide investors with a consistent exposure to six investment factors that academic research has demonstrated have tended to outperform the broad market in both absolute and risk-adjusted terms over longer periods.

[USMF](#) uses a composite score to rank companies by low [correlation](#), [momentum](#), [quality](#) and [value](#), and selects the top 200 out of the 800 largest U.S. companies.

These stocks are then weighted by a composite multifactor score and the inverse of their recent volatility, giving investors an inherent exposure to the size and low volatility factors.

In the graph below we can see how [USMF's market cap](#) exposure is comparable to the [Russell Midcap Index](#).

MarketCap Exposure



Sources: WisdomTree, FactSet. Data as of 04/29/22. You cannot invest directly in an index.

This combination of factors in the underlying index methodology results in a basket with attractive valuation, growth and profitability metrics that stacks up well against other funds in the mid-cap core category—where it is classified by style analytics firms like Morningstar.

Contrasting USMF’s fundamentals to comparable benchmarks, we can see the effectiveness of the multifactor methodology implemented.

USMF has significantly lower trailing- and forward-valuation metrics and more attractive distributions to investors in the form of net buyback yield. The profitability of USMF’s basket exceeds its benchmarks, and looking at trailing three-year sales and earnings numbers, we can see that constituents selected for the basket have shown solid growth over the period.

Metric	WisdomTree U.S. Multifactor Fund	Russell Midcap Index	S&P 400 Index	S&P 500 Equal Weighted Index
Net Buyback Yield	3.8%	1.1%	1.5%	1.8%
Shareholder Yield	5.4%	2.4%	2.9%	3.4%
P/E Ratio	13.1	22.1	15.3	19.5
Fwd. P/E Ratio	12.8	17.4	14.0	16.6
Return on Equity	19.9%	13.5%	15.5%	15.5%
Return on Assets	4.8%	3.0%	3.5%	3.4%
Median 3-Yr Sales Growth	6.2%	6.4%	5.8%	5.7%
Median 3-Yr Earnings Growth	15.4%	13.3%	12.3%	11.1%

Sources: WisdomTree, FactSet. Data as of 04/29/22. Past performance is not indicative of future results. You cannot invest directly in an index.

Not the Low Volatility You’re Used to...

There have been several criticisms to using low volatility as a stand-alone factor.

The first is that it has not generated absolute excess returns versus the market over the last 50-plus years.

Second, historically, the low-volatility factor has been extremely sensitive to interest rates, generally underperforming in rising rate environments due to its increased exposures to the Utilities, Real Estate and Consumer Staples sectors. USMF maintains sector neutrality to the broad market, reducing its interest rate sensitivity while keeping a low volatility tilt stemming from its portfolio construction methodology.

Sector Exposures

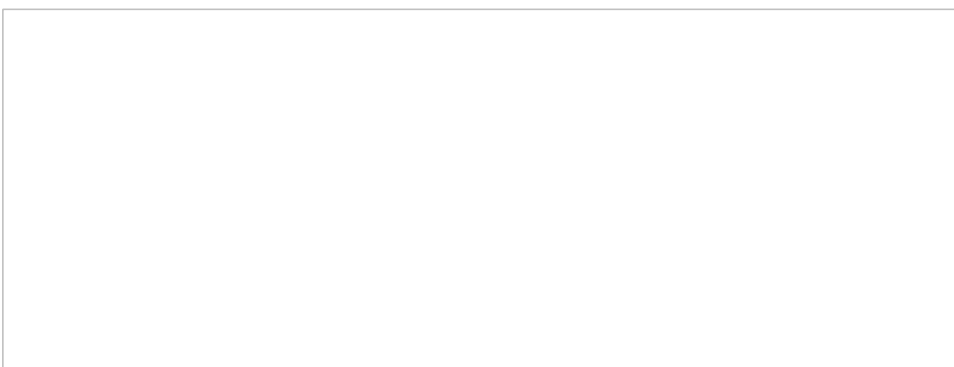


Even though [USMF](#) is not using low volatility as an alpha-seeking factor, we are aware of its prowess in risk-adjusted terms and therefore use it as part of our strategy's weighting mechanism.

Also, given some of our factor definitions, like risk-adjusted returns for momentum, the composite multifactor score rewards lower volatility companies and implicitly tilts the strategy toward this factor.

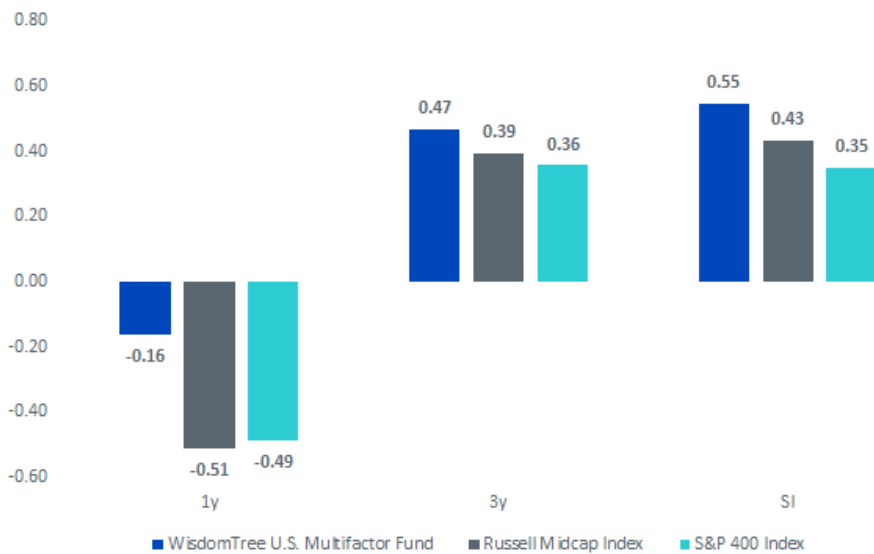
Bottom Line: 5-Star Performance

[USMF](#)'s combination of alpha seeking factors and low volatility tilt in its weighting have paid off with strong relative performance versus its mid-cap blend benchmarks.



For the most recent standardized performance, 30-day SEC yield and month-end performance click [here](#). Since its inception on June 29, 2017, almost five years ago, [USMF](#) has exhibited higher absolute and risk-adjusted returns than the S&P 400 and Russell Midcap indexes.

Risk-Adjusted Returns



Sources: WisdomTree, FactSet. Data as of 04/29/22. **Past performance is not indicative of future results.** You cannot invest directly in an index.

With volatility expected to continue in the near term, [USMF](#) can be an interesting way of positioning a multi-factor exposure to the core of your portfolio.

Important Risks Related to this Article

There are risks associated with investing, including the possible loss of principal. Investing in a Fund exposed to particular sectors increases the vulnerability to any single economic, political or regulatory development. This may result in greater share price volatility. Due to the investment strategy of the 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.

For the top 10 holdings of USMF please visit the Fund's fund detail page at <https://www.wisdomtree.com/investments/etfs/equity/usmf>

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.

Related Funds

+ [WisdomTree U.S. Multifactor Fund](#)

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.

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DEFINITIONS

Russell 3000 Index: Measures the performance of the 3,000 largest U.S. companies based on total market capitalization.

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

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.

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.

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.

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.

Market Capitalization: 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.

Russell Midcap Index: The Russell Midcap Index measures the performance of the mid-cap value segment of the U.S. equity universe. It includes those Russell Midcap Index companies with lower price-to-book ratios and lower forecasted growth values.