A NEW GOLD STANDARD IN CAPITAL EFFICIENCY

Jeremy Schwartz — Global Chief Investment Officer
03/17/2022

I have worked alongside Jeremy Siegel, our Senior Investment Strategy Advisor, for over 20 years now.

The central chart of his classic book, *Stocks for the Long Run*, shows the real, after-inflation returns of major asset classes over a 200-year history.

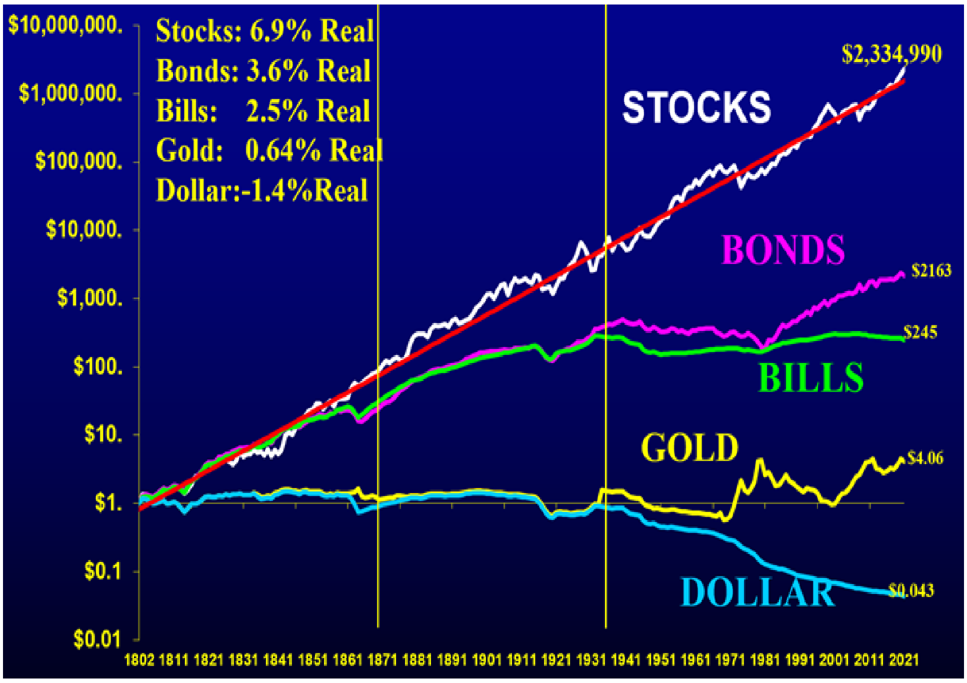
If you have seen him present, you've heard his punchline about the gold investment: a hypothetical $1 investment in gold in 1802 would translate to $4.06 of after-inflation purchasing power 220 years later.

In *Stocks for the Long Run*, his argument for stocks is the same. A $1 investment in stocks grows to over $2,334,990—with all the caveats that it would have been difficult to index and achieve the market returns in the same ways investors can replicate total market index strategies at just a few basis points of costs.

This 200+ year historical chart has been one of Siegel's arguments against investing in gold over the really long run.

Yet, gold kept up with inflation over the long run and it provided a modest amount of after-inflation returns (less than 1% per year).

Total Real Return Indexes January 1802 – December 2021



Source: Siegel, Jeremy, *Stocks for the Long Run (2014), With Updates to 2021.* Past Performance is not indicative of future results. **Stocks:** The total returns after inflation on the broadest index of stocks available at the time. (Stocks-real-total return index: 1802–2022). **Bonds:** The total returns on an index on U.S. government bonds after inflation. (Bonds-real-total return index: 1802–2022). **Bills:** Total returns on U.S. Treasury Bills after inflation. (Bills-real-accumulative index: 1802–2022). **Gold:** The value of $1 of gold bullion after inflation. (Gold-real-price index: 1802–2022). **Dollar:** The purchasing power of one U.S. dollar. (Money: 1802–2022). 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.

When you look at the bond market today, real, after-inflation bond yields are in negative territory.

There was a long 35-year stretch of Siegel's data, from 1946–1981, when bonds had a negative after-inflation return.

During that period, gold had a positive after-inflation return of 2.2% and 7% annually in nominal terms, beating the 4.7% per year rise in inflation.

After-Inflation Returns					
	Stocks	Bonds	Bills	Gold	U.S. Dollar
1946-1981	5.3%	-2.5%	-0.5%	2.2%	-4.5%

Nominal Returns					
	Stocks	Bonds	Bills	Gold	U.S. Dollar
1946-1981	10.2%	2.0%	4.1%	7.0%	4.7%

Source: Stocks for the Long Run, Jeremy Siegel. CPI = Consumer Price Index (CPI): A measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. The CPI is calculated by taking price changes for each item in the predetermined basket of goods and averaging them; the goods are weighted according to their importance. Changes in CPI are used to assess price changes associated with the cost of living.

Current Dynamics

Our outlook calls for above-average inflation over the next three to five years due to the large pandemic response and money supply growth that resulted from combined fiscal and monetary policies.

The inflation dynamics we see today resemble the 1946–1981 period. On a nominal basis, bonds returned 2%, while CPI averaged almost 5% a year. The current 10-year Treasury yield is under 2% and inflation is running at 7%. We see inflation cooling but it could very well average 4%–5% for the next 3–5 years. What to do?

Having to sell equities to fund allocations to gold—if you go by Siegel's long-term chart—looks like a challenging proposition. But what if you stacked assets on top of each other to gain gold exposure without reducing your asset allocation to stocks?

That is precisely what we are trying to achieve with the WisdomTree Efficient Gold Plus Equity Strategy Fund (GDE), which combines stock positions with gold futures.

GDE seeks to deliver a capital-efficient investment strategy with exposure to a market capitalization-weighted basket of the largest 500 U.S. equities and gold futures exposure added on top.

Here's how it works: for every $100 invested, the Fund seeks to invest approximately $90 in the large-cap U.S. equities and $10 in short-term collateral. That collateral helps fund $90 in gold futures for $180 of total exposure to large-cap equities and gold futures in the Fund.

WisdomTree has previously launched capital-efficient strategies for stock and bond futures in a 90/60 combination across U.S., international and emerging markets. This 90/90 combination is a further extension of the capital-efficient framework utilizing gold.

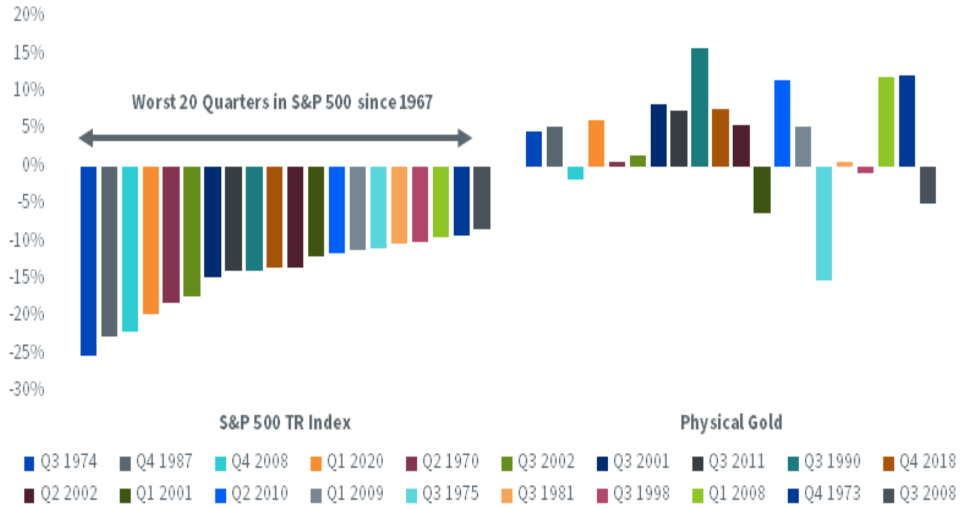
Why Gold Now?

Investors often allocate to gold during cycles of turbulence as a tactical move to hedge risk. With a mix of historically low global interest rates and high inflation, investors are increasingly seeking portfolio diversifiers to hedge macro risk. We view gold exposure as a well-suited solution.

Gold can serve as a compelling portfolio diversifier—as an asset class, gold has historically been a positive performance outlier during large equity market drawdowns.

During the 20 worst quarters for the S&P 500 Index, gold outperformed by an average of 18.2%. In Q1 2020, during the onset of the COVID-19 pandemic, gold returned 6.22% compared to −19.6% for the S&P 500.

Gold returned positive performance in 15 of the 20 worst quarters for S&P 500



Sources: WisdomTree, Bloomberg, 12/21/67–12/31/21, using quarterly data. In USD. Gold is proxied by the LBMA Gold Price PM Index and S&P 500 is proxied by the S&P 500 Gross Total Return Index. Past performance is not indicative of future results. LBMA Gold Price Index: measures the performance of setting price of gold.

GDE within a Portfolio

GDE is an innovative and capital-efficient substitute for large-cap U.S. equity, multi-asset or alternative ETFs. Using leverage embedded in futures contracts, we believe GDE can help diversify a portfolio with better capital efficiency.

Quick Facts	
Ticker	GDE
Exchange	Cboe
Expense Ratio	0.20%
Structure	Actively managed, open-end ETF
Exposure	Large-cap U.S. equities and U.S. listed gold futures

Important Risks Related to this Article

There are risks associated with investing, including the possible loss of principal. The Fund is actively managed and invests in U.S.-listed gold futures and U.S. equity securities. The Fund's use of U.S.-listed gold futures contracts will give rise to leverage, magnifying gains and losses and causing the Fund to be more volatile than if it had not been leveraged. Moreover, the price movements in gold and gold futures contracts may fluctuate quickly and dramatically, and have a historically low correlation with the returns of the stock and bond markets. U.S. equity securities, such as common stocks, are subject to market, economic and business risks that may cause their prices to fluctuate. The Fund's investment strategy will also require it to redeem shares for cash or to otherwise include cash as part of its redemption proceeds, which may cause the Fund to recognize capital gains. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

Neither diversification nor asset allocation strategies assure a profit or protect against loss. Investors should consider their investment time frame, risk tolerance level and investment goals.

Professor Jeremy Siegel is a Senior Investment Strategy Advisor to WisdomTree Investments, Inc., and WisdomTree Asset Management, Inc. This material contains the current research and opinions of Professor Siegel, which are subject to change, and should not 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. The user of this information assumes the entire risk of any use made of the information provided herein. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

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 Efficient Gold Plus Equity Strategy Fund

+ WisdomTree Efficient Gold Plus Gold Miners Strategy 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.

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, Kara Marciscano, Jianing Wu, Brian Manby and Scott Welch 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

Inflation : Characterized by rising price levels.

Basis point : 1/100th of 1 percent.

Dividend yields : Refers to the trailing 12-month dividend yield. Dividends over the prior 12 months are added together and divided by the current share price. Higher values indicate more dividends are being generated per unit of share price.

Treasury yield : The return on investment, expressed as a percentage, on the debt obligations of the U.S. government.

Futures/Futures Contract : Reflects the expected future value of a commodity, currency or Treasury security.

Capital efficiency : The ability for an investment strategy to gain exposure to a particular market while using fewer assets.

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.

Baskets : The composition of an ETF in terms one creation/redemption unit.

Interest rates : The rate at which interest is paid by a borrower for the use of money.

Drawdowns : Periods of sustained negative trends of return.

S&P 500 Index : Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.