

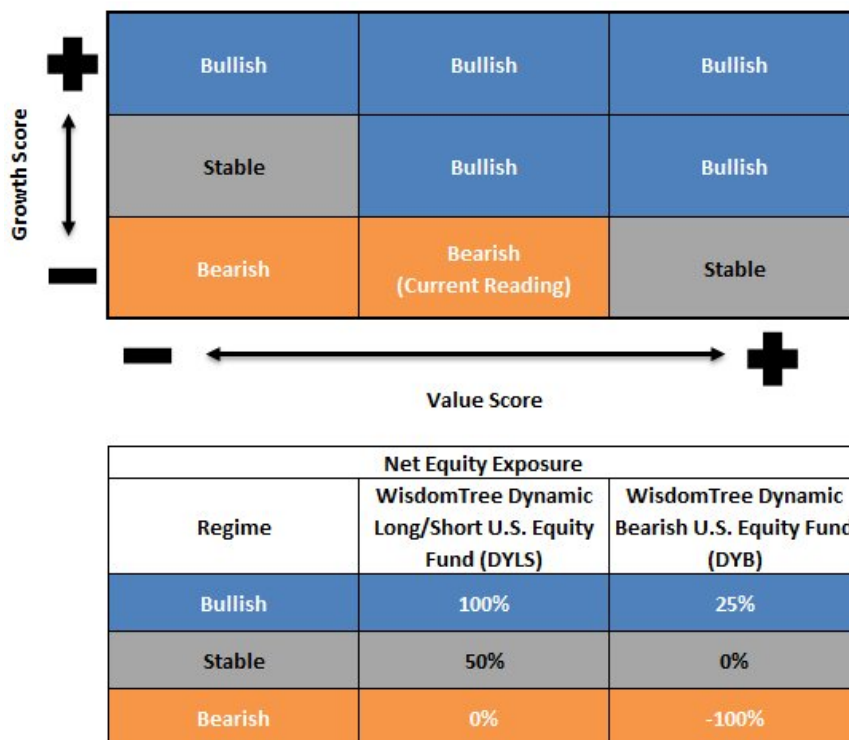
# Are You Having Trouble Timing the Market?

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A simple, well-known adage says that successful investing is all about “time in the market, rather than timing the market.” Unfortunately, many investors lack investment discipline and have trouble staying invested when volatility increases, and as a result, tend to time the market wrong by selling at adverse times. Timing is also notoriously difficult for market professionals. But if you are ready to give up trying to time the market yourself, we have created a rules-based market indicator that strives to determine a tactical timing indicator for you, and we’ve made it available in exchange-traded funds (ETFs). **Timing the Market** We believe it makes sense for many investors to invest for the long term using a strategic asset allocation model with periodic rebalances. That being said, there are investors who want to take a more tactical approach to asset allocation and by doing so try to time the market. Some popular market timing indicators use a security’s or index’s price, by comparing various short-term moving averages (MA) against longer-term moving averages, and one of the most popular signals, often referred to as the “golden cross” which occurs when the 50-day MA crosses above the 200-day MA.<sup>1</sup> Historically, technical indicators like the golden cross have proven to add value, mostly by buffering investors from substantial drawdowns. WisdomTree has differentiated a timing indicator to be determined based on market fundamentals, rather than technical indicators and market prices. [This dynamic indicator incorporates trends](#) in well-known growth, quality and value factors. • **Growth/Quality Indicators**—These include trends in operating and net income margins, as well as profit quality. Profits are a key driver of the market, so when the bottoms-up profits of a broad cross section of the U.S. markets are deteriorating, the indicator would look to be more bearish and hedge the portfolio. • **Value Indicators**—These consider the price-to-book (P/B) and [price-to-cash flow \(P/CF\)](#) of the universe, to determine if valuations are stretched compared to their history. When price appreciation outpaces fundamental growth, the indicator would look to hedge because rising valuations typically signal there is more downside risk in the market. Combining both growth/quality and value indicators results in a signal that can provide guidance on when to become more bullish or bearish. **What Signals Suggest Today: Hedge Your Market Risk** Recently we have seen both net and operating profits margins deteriorate in the market, resulting in a negative growth/quality score. Also, after large price gains in the market during recent years, the value indicator signaled relatively high numbers, resulting in a neutral value score. As of December 31, 2015, the dynamic hedging indicator was positioned in one of the two bearish buckets, signaling a 100% hedge ratio. **Dynamic Hedging Indicator Results**



Sources: WisdomTree, Alpha Vee, as of 12/31/15. The above chart references the possible ranges of net equity exposures.

**How to Implement?** WisdomTree recently launched two liquid alternative long/short strategies in the ETF structure: the [WisdomTree Dynamic Long/Short U.S. Equity Fund \(DYLS\)](#) and the [WisdomTree Dynamic Bearish U.S. Equity Fund \(DYB\)](#). These liquid alternative solutions follow rules-based passive Indexes that use the dynamic hedging indicator to decide the short position (or hedge ratio), which rebalances monthly based on growth, quality and value conditions of the broad market. Since each Fund has different possible ranges of net equity exposure, they can be used separately or together, depending on the view of the market. The net equity position was 0% (or market neutral) for DYLS and -100% (or net short equity) for DYB.<sup>2</sup> It is important to note that these Funds are designed to be dynamic, and the hedge ratio (or net equity position) can change on a monthly basis. **When Would Hedge Ratios Change: If Profit Margins Stop Deteriorating** In order to move to another box and for DYLS to go from market neutral to unhedged, we would have to see changes in the growth or value score, which can happen if profit margins stop deteriorating (or improve) and/or prices fall more rapidly than fundamentals, which would improve valuation readings. Remember, although prices change rapidly, equities report earnings only quarterly. As the latest quarterly earnings data starts getting evaluated, the dynamic hedging indicator will reassess conditions monthly. While our hedging indicator will certainly not get every market downdraft timed perfectly, the indicator did start getting more bearishly positioned in 2015. The early results show the merits of including a strategy that aims to hedge market risk (or go net short, as is happening in DYB). These Funds certainly merit a look as a volatility-reduction part of asset allocation models or as part of a core alternatives allocation bucket. <sup>1</sup>Other moving averages may be used, the above reference is just used as an example <sup>2</sup>Source: WisdomTree, as of 12/31/15

## 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 Funds to offset their exposure to market volatility may not perform as intended. The Funds 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 Funds invest in the securities included in, or representative of, their Indexes regardless of their investment merit, and the Funds do not attempt to outperform their Indexes or take defensive positions in declining markets. Please read each Fund's prospectus for specific details regarding the Fund's risk profile.

Using an asset allocation strategy does not ensure a profit or protect against loss. Investors should consider their investment time frame, risk tolerance level and investment goals.