

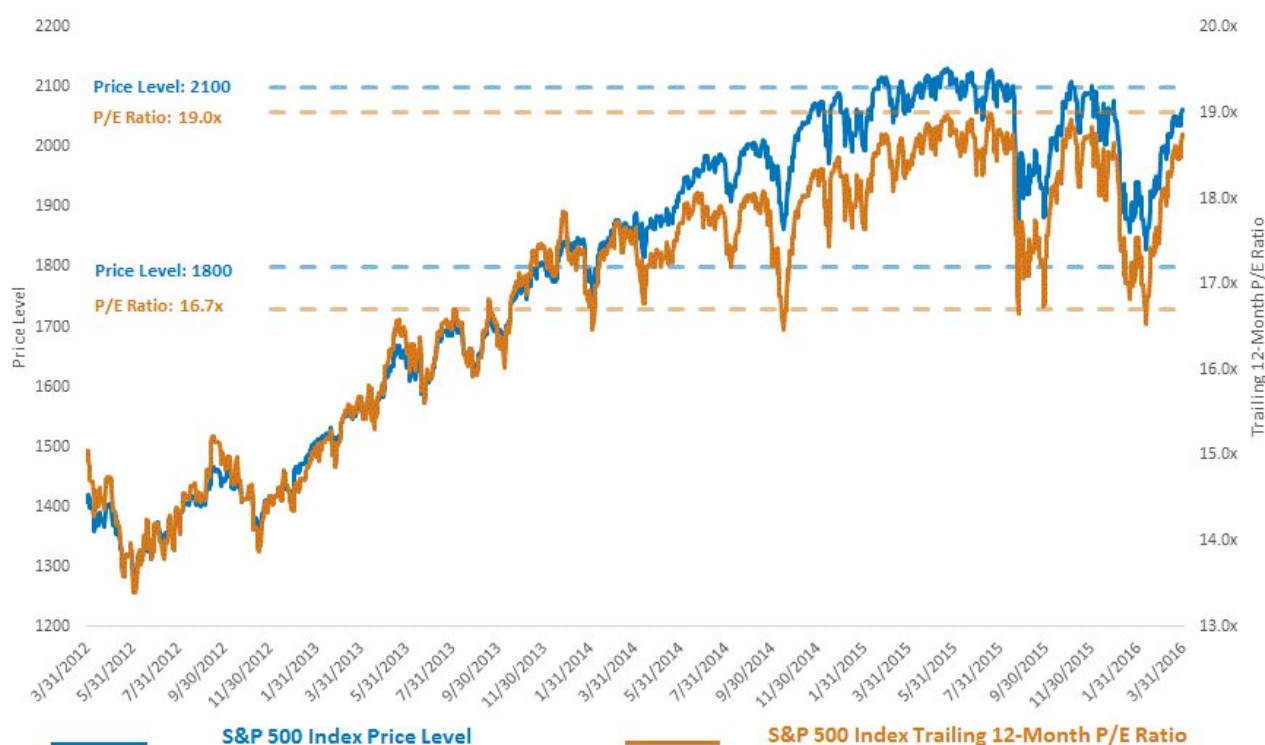
How to Navigate a Range Bound Market

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Luciano Siracusano III

Chief Investment Strategist

Back on February 9, with the [S&P 500 Index](#) trading at 1830 and the Volatility Index (VIX),—which measures fear in the market—soaring towards 30, I was a guest on CNBC. When asked to comment on where I felt the market was headed, I said I thought it would rebound and continue to trade in a range between 1800 and 2100. With Friday's close on the S&P 500 of 2070, I think the market will soon hit up against the upper bound of that trading range and enter a new period of turbulence as we go deeper into the second quarter. The S&P 500 has been treading water for the last two years. There have actually been two ranges, bound by two price points: approximately 1800 and 2100 on the [S&P 500 Price Index](#), and on a [trailing price-to-earnings \(P/E\) ratio](#) roughly 16.7x at the lower bound and 19.0x at the upper bound, based on Bloomberg ratios. **S&P 500 Index Has Been Trading in Distinct Ranges Recently**



Source: Bloomberg, with data from 3/31/2012 to 3/31/2016. You cannot invest directly in an index. Past performance is not indicative of future results.

What Could Drive the S&P 500 Higher from Here? Given that the operating and net profit margins on the S&P 500 peaked several quarters ago, earnings growth is unlikely to come from meaningful margin expansion. And with the S&P 500 ending the quarter trading at 18.7x, it is also unlikely that P/E multiple

expansion will drive the market meaningfully higher. If margin expansion, multiple expansion or even share buybacks are unlikely to drive earnings growth from this point forward, then the only major driver left is a pickup in aggregate sales growth. Faster sales growth will likely require faster economic growth, both in the U.S. and overseas. Yet recent data suggests that inventories have been growing, as retail and wholesale sales have slowed,² which means the rebound in overall earnings growth in 2016 may not end up being as robust as analysts currently predict. While aggregate dividend growth and the current dividend yield on the S&P 500 provide downside support for the market, aggregate dividend growth is also slowing, decelerating from an average of 13.5% over the last five years to 6.6% over the last 12 months.³

How to Navigate a Sideways Market If you believe, as I do, that the market is more likely to be flat to down over the next few months and through the presidential election in November, then there are two tools I believe investors may wish to use to navigate a sideways market. One is collecting option premiums. The other is squeezing additional dividend income from the equity market. One way to do the former now exists in the exchange-traded fund (ETF) structure. In February 2016, WisdomTree launched the [WisdomTree CBOE S&P 500 PutWrite Strategy Fund \(PUTW\)](#), which is designed to track the [CBOE S&P 500 PutWrite Index](#). The Fund, which owns Treasury bills, collateralizes its cash each month to sell "at the money" put options to collect premiums representing the price of these put options on the underlying S&P 500 Index. The CBOE Index, which has a live history dating back to 2007, shows that writing puts in sideways markets has the potential to generate returns that exceed those generated by the S&P 500 Index. In 2011, when the S&P 500 returned 2%, the CBOE Index returned 6%. And in 2015, when the S&P returned just north of 1%, the CBOE Index, because of the option premiums collected, advanced 6%.

Get Paid to Own Equity Markets The other key principle to remember in the current environment is to maximize dividend income. About 2.2% of the market's 7.0% annualized return over the last 10 years came from the dividends paid by companies in the S&P 500,⁴ a reminder of how important dividends are in low-return environments. If you believe U.S. equity returns for the next year—or the next 10 years—may end up in that mid-single-digit range, you may prefer to invest in equity markets based on the dividends that companies pay rather than their market value. WisdomTree's dividend-weighted Indexes provide broad-based equity exposure that has correlated highly with established indexes but which offers starting dividend yields that in many cases range from 75 to 200 basis points (bps) above comparable capitalization-weighted indexes. One of my favorite ideas in this current environment, where investors are looking for a combination of present yield and defensive exposure, is the [WisdomTree High Dividend Fund \(DHS\)](#). The Index that DHS tracks, the [WisdomTree High Dividend Index](#), composed largely of mega-cap and large-cap dividend payers, has a trailing dividend yield of 4.15%.⁵ Moreover, as illustrated in the table below, the WisdomTree Index had an excellent first quarter in 2016, outperforming the S&P 500 by more than 600 bps.

The WisdomTree High Dividend Index: An Impressive Long-Term History and a Strong Start in 2016

Average Annual Returns as of March 31, 2016						
Index	WisdomTree Index Inception Date	YTD	1 year	3 years	5 years	Since WisdomTree Index Inception
WisdomTree High Dividend Index	6/1/2006	8.06%	8.38%	11.24%	13.61%	6.64%
Russell 1000 Value Index		1.64%	-1.54%	9.38%	10.25%	5.82%
S&P 500 Index		1.35%	1.78%	11.82%	11.58%	7.30%

Source: Bloomberg. You cannot invest directly in an index. Past performance is not indicative of future results.

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.

If there is a rotation going on now in the market, from growth and momentum stocks to value and dividend-yielding stocks, then the WisdomTree High Dividend strategy is structured to benefit from that rotation. ***Unless otherwise noted, data source is Bloomberg.*** 1Source: Bloomberg. 2Source: Bloomberg, most recent readings. 3Source: Bloomberg, measuring the growth of trailing 12-month dividends on the S&P 500 Index universe. 4Source: Bloomberg, for period from 3/31/06 to 3/31/16. 5Source: Bloomberg, as of 3/31/2016.

Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. PUTW Fund will invest in derivatives, including S&P 500 Index put options ("SPX puts"). 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. The value of the SPX puts in which the Fund invests is partly based on the volatility used by market participants to price such options (i.e., implied volatility). The options values are partly based on the volatility used by dealers to price such options, so increases in the implied volatility of such options will cause their value to increase, which will result in a corresponding increase in the liabilities of the Fund and a decrease in the Fund's NAV. Options may be subject to volatile swings in price influenced by changes in the value of the underlying instrument. The potential return to the Fund is limited to the amount of option premiums it receives; however, the Fund can potentially lose up to the entire strike price of each option it sells.

Funds focusing their investments on certain sectors increase their vulnerability to any single economic or regulatory development. This may result in greater share price volatility.

Due to the investment strategy of the Funds, it may make higher capital gain distributions than other ETFs. Please read each Fund's prospectus for specific details regarding each Fund's risk profile.