

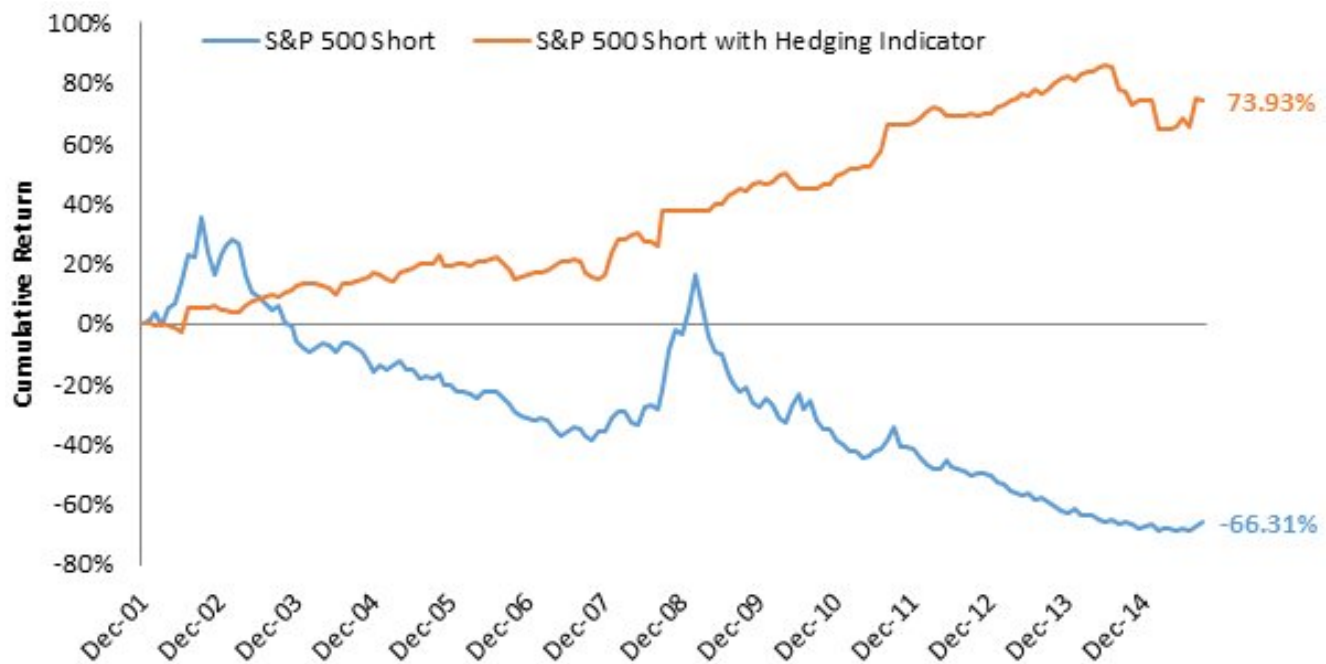
Introducing a Dynamic Bearish Liquid Alternative Solution

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Many investors allocate their portfolios to traditional asset classes only—namely equity and fixed income, investing on a long-only basis. And unless investors have a premonition and really good timing, their portfolios usually suffer during bear markets. On the other hand, short portfolios have the potential to profit from negative price movements, but as John Maynard Keynes has been attributed with saying, “The market can stay irrational longer than you can stay solvent.” So while equity markets do have bear cycles, allowing an investor to potentially profit from going short, it may be prudent to have the flexibility to adjust your short position. Also, over long periods, the expected return of equities is positive, making it difficult to profit from a long-term, net-short position. A dynamic bearish strategy is designed to be net short or market neutral (equal long and short positions) when the market environment is judged to be poor or mixed, and net long when the environment is deemed more attractive. We believe this may be a better long-run strategy than being 100% net short over the long term. Figure 1 below illustrates the power of being flexible by comparing a dynamic short strategy against a strategy that remains 100% net short, both layered on top of the [S&P 500 Index](#): • **Dynamic Bearish Outperformed**—Applying a dynamic short strategy to the S&P 500 Index based on the hedging indicator resulted in returns of almost 74%, while shorting the S&P 500 resulted in a loss of more than 66% over the period. **Figure 1: Incorporating a Dynamic Hedge Ratio**



Source: WisdomTree, 12/31/01–9/30/15. You cannot invest directly in an index. Past performance is not indicative of future results. Note: This does not represent the returns to the WisdomTree Dynamic Long/Short U.S. Equity Index nor does it represent a back test of that Index.

Introducing the WisdomTree Dynamic Bearish U.S. Equity Index We believe this new Index can provide a passive dynamic bear approach—generating alpha at the core through quantitative and fundamental stock selection—while also having the ability to hedge market risk or profit from market pullbacks. Unlike traditional long-only indexes, the Index includes both long and short components, with the short percentage changing monthly, depending on market characteristics. **Generating Alpha at the Core** The long portion of the Index comprises approximately 100 stocks with the best grades (as defined below), is weighted to reward lower-volatility stocks and is rebalanced quarterly 1. • **Fundamental Selection**—Stocks are graded on a combination of growth and value indicators, and the most attractive stocks within each sector are selected for inclusion. Each sector has its own unique factor scoring system. A subset of the variables analyzed includes:

- **Valuation Factors**—dividend yield, price-to-operating cash flow, price-to-book ratio, [price-to-sales ratio](#) and others
- **Growth and Quality Factors**—Return on equity, return on capital, return on assets, operating income over sales, operating income growth and others
- **Sector Weighting**—The Indexes target a *sector-neutral allocation* compared to the largest 500 U.S. stocks by market capitalization. The number of stocks in each sector is based on the sector weight of the 500 largest U.S. companies. For instance, if the Information Technology sector represents 20% of the market cap of those 500 companies, then 20 Information Technology stocks (20% of 100) would be selected for the Index, and their collective weight in the index would also be 20%.²
- **Stock Weighting**—Within each sector, the Index gives higher weights to stocks that exhibit lower volatility characteristics, as measured by the stock's standard deviation and beta to the market.

Incorporating a Dynamic Hedge Ratio The short component of the Index is determined

by a hedge indicator that considers a combination of both growth and value indicators:

- **Growth:** Looks at operating profit margins, net income profit margins and profit quality (or operating cash flow over operating income)
- **Value:** Looks at price to book and [price to cash flow](#)

Profits are a key driver of the market. So when the growth fundamentals, or profits, of the eligible index universe are deteriorating, the dynamic indicator would look to hedge the portfolio. Similarly, as valuations become more stretched, adding risk to the portfolio, the indicator would look to hedge as well. Over time, being able to limit or buffer losses during unfavorable markets has been critical to increasing portfolio returns while reducing risk.

Index Component Exposure As we discussed, the WisdomTree Dynamic Bearish U.S. Equity Index contains both long and short components. And while the underlying eligible components will be fixed on a quarterly basis, the net exposure will change monthly based on the hedge ratios. Based on the growth and value indicators of the market, the component weights will be one of the following:

- 3 • **Valuation and Growth Both Attractive**—100% long and 75% short (i.e., 25% net long)
- **Valuation and Growth Mixed**—100% long and 100% short (i.e., 0% net long)
- **Valuation and Growth Both Poor**—100% long Treasury bills and 100% short (i.e., 100% net short equity)

Introducing the [WisdomTree Dynamic Bearish U.S. Equity Fund \(DYB\)](#) The launch of DYB, the Fund designed to track the WisdomTree Dynamic Bearish U.S. Equity Index before fees and expenses, brings the opportunity to take a dynamic bearish position in U.S. equities, enabling investors to access the ability to profit from market pullbacks with all the benefits of exchange-traded funds. DYB offers investors:

- A dynamic strategy designed to profit during falling markets
- Diversification to traditional long-only asset classes
- Access to alternative investments with no investment minimums, no sales loads, no lockup periods and no redemption fees (ordinary brokerage commissions apply)
- Full transparency of strategy and holdings with intraday liquidity
- No K-1 filing—and all the other benefits of ETFs

1Components must be listed on a U.S. exchange, domiciled in the U.S., have a market cap of \$2 billion and share price of at least \$3 at time of screening. 2There might not be 100 stocks due to rounding issues when determining number of stocks per sector based on market cap weighting (i.e., 19.3% sector weight results in 19 stocks, while 19.7% sector weight results in 20 stocks). 3Due to the long component rebalancing quarterly and short component rebalancing monthly, other combinations are possible.

Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. The Fund will invest 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 Fund to offset its exposure to market volatility may not perform as intended. The Fund 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 Fund invests in the securities included in, or representative of, its Index regardless of their investment merit, and the Fund does not attempt to outperform its Index or take defensive positions in declining markets. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

Diversification does not eliminate the risk of experiencing investment loss.