

Seeking Modern Alpha: Introducing Our New Quantitative Active Strategy, QSY

Published December 20, 2017

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WisdomTree's launch of its first 20 exchange-traded funds (ETFs) more than a decade ago was centered on performance. Our original alpha-seeking strategies were packaged into Indexes, but the goals of those Indexes were clear: seek to provide better risk-adjusted total returns than standard market capitalization-weighted benchmarks over the coming decades. Many of these original strategies were built to be very broad-based, relatively low-tracking-error strategies.

Starting with the June 2017 launch of the [WisdomTree U.S. Multifactor Index](#), which was designed to create a diversified set of alpha signals but take more active risk and tracking error, WisdomTree has been pushing out the pursuit for higher potential value-added strategies.

With the repositioning of one of our legacy value strategies (EZY) as our new [Quality Shareholder Yield ETF, QSY](#), WisdomTree has taken the pursuit of modern alpha a step further, [running a quantitative active strategy](#).

Actively Managed: Run Quantitatively with Risk Management Controls

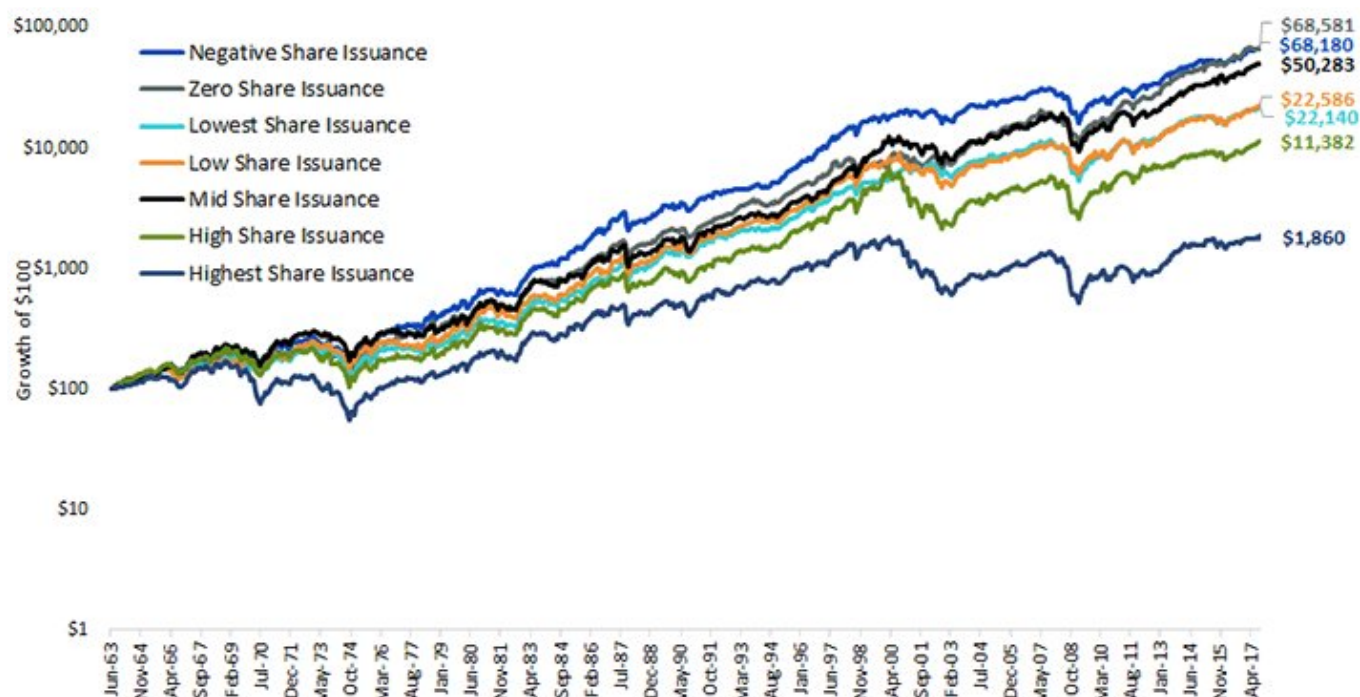
With active management comes a focus on the proverbial five P's: philosophy, process, portfolio, performance and people.

The **philosophy** is simple: WisdomTree believes total shareholder yield is one of the premiere valuation guideposts delivering long-term value to portfolio construction, while quality and profitability sorts of the market also provide a sustainability check to these shareholder yield sorts of the market. If you want to invest in companies earning high returns on invested capital, quality sorts of the market accomplish that.

There is a lot of research on buybacks and shareholder yield being tied to performance: Patrick O'Shaughnessy wrote this post on high-conviction [buybacks](#) a few years back.

Fama and French added sorts of the market by stock buybacks to their data library, and the long-term returns to high-buyback companies compared to share issuers is fairly dramatic.

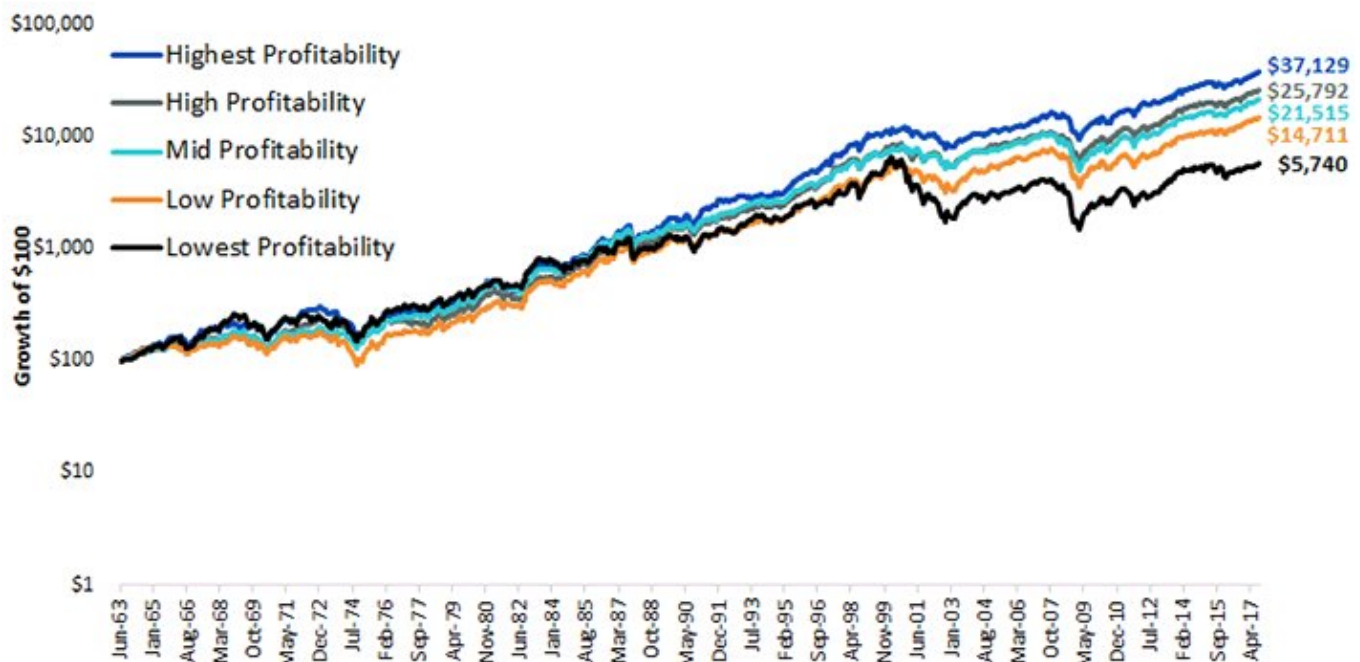
Share Issuance Quintiles



Sources: WisdomTree, Ken French Data Library, 9/30/17. Past performance is not indicative of future results. You cannot invest directly in an index.

Research on quality and profitability as an indicator also shows long-term value added, and WisdomTree believes there are further benefits from combining elements of both of these strategies into a portfolio-selection process.

Operating Profitability Quintiles



Sources: WisdomTree, Ken French Data Library, 9/30/17. Past performance is not indicative of future results. You cannot invest directly in an index.

Process

The portfolio construction utilizes a quantitative approach to ranking stocks on their combined attributes of quality with minimum shareholder yield requirements.

- We start with a broad universe of large- and mid-capitalization stocks and score stocks on multiple quality criteria—factors such as returns on invested capital and free cash flow-based metrics.
- But we also have a preference for stocks with a minimum shareholder yield, with the portfolio tilting weight toward stocks with the highest-conviction buybacks and highest shareholder yields.
- The portfolio has an equal weighted-like yield orientation to allocating weight—subject to risk controls and overall portfolio balance.
- The portfolio had a primary rebalancing completed in December but will also have adjustments made on a quarterly basis
- Risk controls and portfolio adjustments: The investment model is evaluated for sector and industry tilts and for risk indicators and opportunities in individual stocks. The team has discretion to adjust the portfolio to balance risk and return objectives from the pure quantitative model output.

Portfolio Characteristics

Investors can see the full details of QSY's holdings every day on our website. The fundamental attributes of the original expected holdings show that this basket of stocks trades at a relatively lower market multiple than the [S&P 500 Index](#), despite the basket having a higher profitability and quality gauge than the [S&P 500](#).

As of the November 30th screening date, these stocks had a net buyback yield over the last 12 months just shy of 5%, and the combined dividend and net buyback yield is close to 7%, approximately 300 basis points (bps) higher than the S&P 500. These are characteristics we believe are long-term powerful drivers of total returns.

People

The team driving the underlying investment process and ongoing research to maintain and enhance the process is the same research team that has been building our equity indexes for more than a decade. Our team has grown from its original days, and we have a more quantitative bent to building out the research team, data collection and investment protocols.



Jeremy Schwartz, CFA - Director of Research - Jeremy is responsible for the WisdomTree equity index construction process and oversees research across the WisdomTree family. Prior to joining WisdomTree, Jeremy was Professor Jeremy Siegel's head research assistant and helped with the research and writing of *Stocks for the Long Run* and *The Future for Investors*. Jeremy is a graduate of The Wharton School of the University of Pennsylvania.



Tripp Zimmerman, CFA - Associate Director of Research - Tripp leads the firm's index group, primarily responsible for index creation, maintenance and reconstitution. Tripp graduated from The University of North Carolina at Chapel Hill with dual degrees in Economics and Philosophy.



Josh Russell, PhD, CFA - Quantitative Equity Strategist - Josh leads the firm's quantitative equity group. He earned a PhD in Electrical and Computer Engineering from The University of California, Santa Barbara. He also holds Master's Degrees in Economics and Electrical Engineering and a Bachelor's Degree in Electrical Engineering.



Alejandro Saltiel, CFA - Quantitative Research Analyst - Alejandro is responsible for quantitative research on WisdomTree's products and global equity markets. He received his Master's in Financial Engineering degree from Columbia University in 2017 and a Bachelor's in Engineering degree from the Instituto Tecnológico Autónomo de México (ITAM) in 2010.



Christopher Carrano - Quantitative Research Analyst - As a member of WisdomTree's quantitative group, Chris works closely with data in order to construct and monitor WisdomTree investment products and provide investment insights to WisdomTree clients. He graduated from Columbia University with a B.A. in Economics in 2014.

WisdomTree believes combining the quantitative nature that our indexing business was based on with established investment procedures we can utilize in structuring the ETF to leverage our index-based routines creates a unique, modern alpha-oriented approach for active equity ETFs. WisdomTree is excited to be pioneering this stage for actively managed portfolios in the ETF structure.

Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. Funds focusing their investments on certain sectors may be more vulnerable to any single economic or regulatory development. This may result in greater share price volatility. While the Fund is actively managed, the Fund's investment process is expected to be heavily dependent on quantitative models, and the models may not perform as intended. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

Click [here](#) for QSY standardized performance.