

The WisdomTree CBOE S&P 500 PutWrite Strategy Fund: A Premium Opportunity

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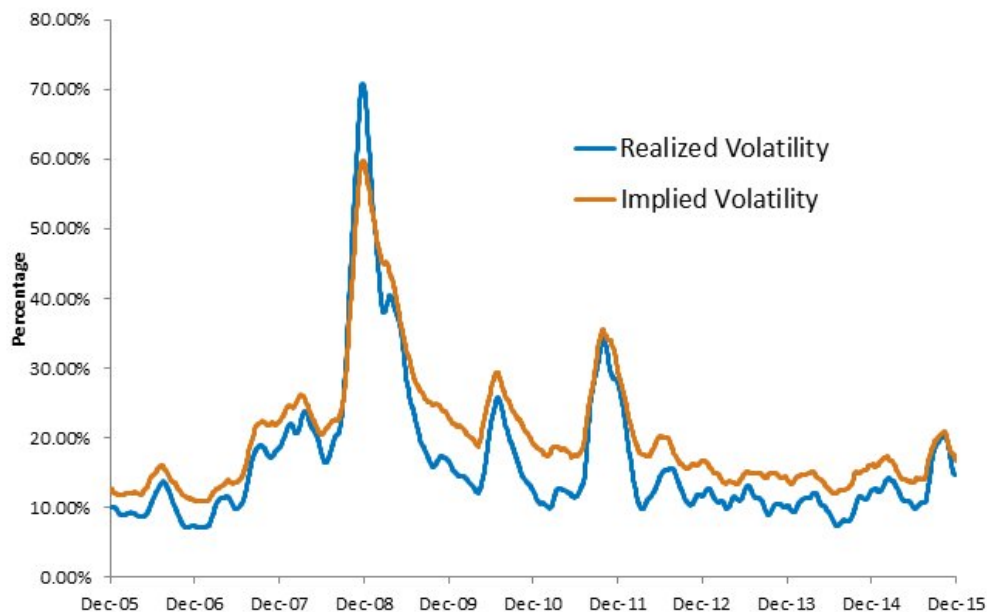
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In a [previous blog post](#), we introduced The [WisdomTree CBOE S&P 500 PutWrite Strategy Fund \(PUTW\)](#), which seeks investment results that, before fees and expenses, generally correspond to the performance of the [CBOE S&P 500 PutWrite Index \(PUT\)](#). In that piece, we showed how historically PUT, the index PUTW is designed to track, had similar returns to the [S&P 500 Index](#) with less risk, and argued that blending the two indexes could offer attractive risk-adjusted returns. Below we will further explain what could be the primary driver of returns for PUTW going forward. **Investment Strategy** PUTW invests in one- and three-month Treasury Bills and sells or “writes” S&P 500 Index put options. The number of put options sold is chosen to ensure full collateralization, meaning the total value of the Treasury account must be equal to the maximum possible loss from the final settlement of the put options at expiration. In addition:

- Options are written “at the money” or at the current level of the S&P 500 Index
- Options are written monthly, instead of quarterly or longer, to help capture more gross premium
- The Fund uses European style options, so they can only be exercised at maturity
- The Fund has a net expense ratio of 0.38%¹

A Premium Opportunity The amount of premiums the Fund receives is tied to the implied volatility of the S&P 500, or how volatile investors perceive the S&P 500 to be. The higher the implied volatility, the higher the premiums the Fund will receive, and the lower the implied volatility, the lower the premiums. Returns for PUTW will largely be driven by the premiums received, but the Fund returns are also influenced by the returns of the S&P 500 Index. As the Fund doesn’t actually own the underlying securities of the S&P 500 Index, it does not benefit when the price goes up. However, because the Fund is selling put options on the S&P 500 Index, it will be exposed to downside movement of the S&P 500. But it is important to remember that the premiums the Fund collects, which are driven by implied volatility, seek to help the Fund on the downside, compared to just the S&P 500 Index. And as illustrated below, implied volatility is often higher than realized volatility, allowing the Fund to potentially profit by receiving more premiums for the risk of options being sold. **S&P 500 Index Volatility: Realized vs. Implied**



Sources: WisdomTree, Bloomberg, 12/31/05–12/31/15. Past performance is not indicative of future results. You cannot invest directly in an index. 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.

Why Invest in PUTW? The [WisdomTree CBOE S&P 500 PutWrite Strategy Fund \(PUTW\)](#) provides: • Ability to potentially profit from implied volatility typically being higher than realized volatility • The premiums the Fund collects may help provide a cushion when the S&P 500 performs negatively • Potential for enhanced risk-adjusted returns • All the [benefits of the ETF structure](#) 1The gross expense ratio is 0.44%. The net expense ratio reflects a contractual waiver of 0.06% through 12/31/16.

Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. The 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), so increases in the implied volatility of such options will cause the value of such options 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 of 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. Due to the investment strategy of the Fund, it may make higher capital gain distributions than other ETFs. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

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