

WTMF: The First Managed Futures ETF to Hold Bitcoin Futures

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Matthew Aydemir

Research Analyst

The recent rise of cryptocurrencies as an asset class has been nothing short of spectacular. Incredible returns have naturally led to a surge in demand from investors looking to gain access to cryptocurrencies.

A cryptocurrency, in short, is a digital currency that is generally not controlled by any central authority. Of these various cryptocurrencies, Bitcoin has been the dominant token with a market cap of approximately \$900 billion, currently accounting for roughly 40% of the global cryptocurrency market cap.

CME Group began offering Bitcoin futures in late 2017 to capitalize on the growing demand for exposure. Nearly four years later, [we have now seen Bitcoin futures make their way into ETFs](#) and have added them to our own [WisdomTree Enhanced Commodity Strategy Fund \(GCC\)](#).

As part of our goal to continuously innovate and enhance [our managed futures product](#), we allocated a 1.5% exposure to Bitcoin futures in the WisdomTree Managed Futures Strategy Fund ([WTMF](#)) in early January 2022. [WTMF](#) will not invest in Bitcoin directly.

[WTMF](#) is a systematic trend-following strategy providing exposure to equities, commodities, currencies and interest rates through positions in futures contracts in seeking to achieve positive total returns in rising or falling markets that are not directly correlated to broad market equity or fixed income returns. We believe that the addition of Bitcoin futures not only further distinguishes [WTMF](#) from other managed futures ETFs but provides investors with Bitcoin exposure in a risk-conscious manner.

Motivation

Ultimately, we believe that what makes Bitcoin attractive to investors is the potential for significant absolute returns.

However, there are other features of Bitcoin that make it an attractive addition to our managed futures product. Specifically, Bitcoin has historically been an excellent diversifier from other traditional asset classes.

In the below chart, we show the correlation of the Bitcoin spot rate with other asset classes. We examine the correlation of the Bitcoin spot rate to other asset classes back to December 31, 2017, roughly the time when CME Bitcoin futures started trading.

Although spot returns can differ significantly from futures returns, we expect that the spot rate will provide a reasonable proxy for a front-month contract in Bitcoin when examining correlation.

We can see that over this period, Bitcoin was weakly correlated with other asset classes.

	Bitcoin Spot Rate	Bloomberg U.S. Aggregate Index	S&P 500 Index	Bloomberg Commodity Index	U.S. Dollar Index
Bitcoin Spot Rate	1				
Bloomberg U.S. Aggregate Index	-0.02	1			
S&P 500 Index	0.16	-0.19	1		
Bloomberg Commodity Index	0.15	-0.11	0.39	1	
U.S. Dollar Index	-0.07	-0.24	-0.04	-0.22	1

Source: WisdomTree, 12/31/17–11/30/21. You cannot invest directly in an index.

For definitions of indexes in the table above, please visit the [glossary](#).

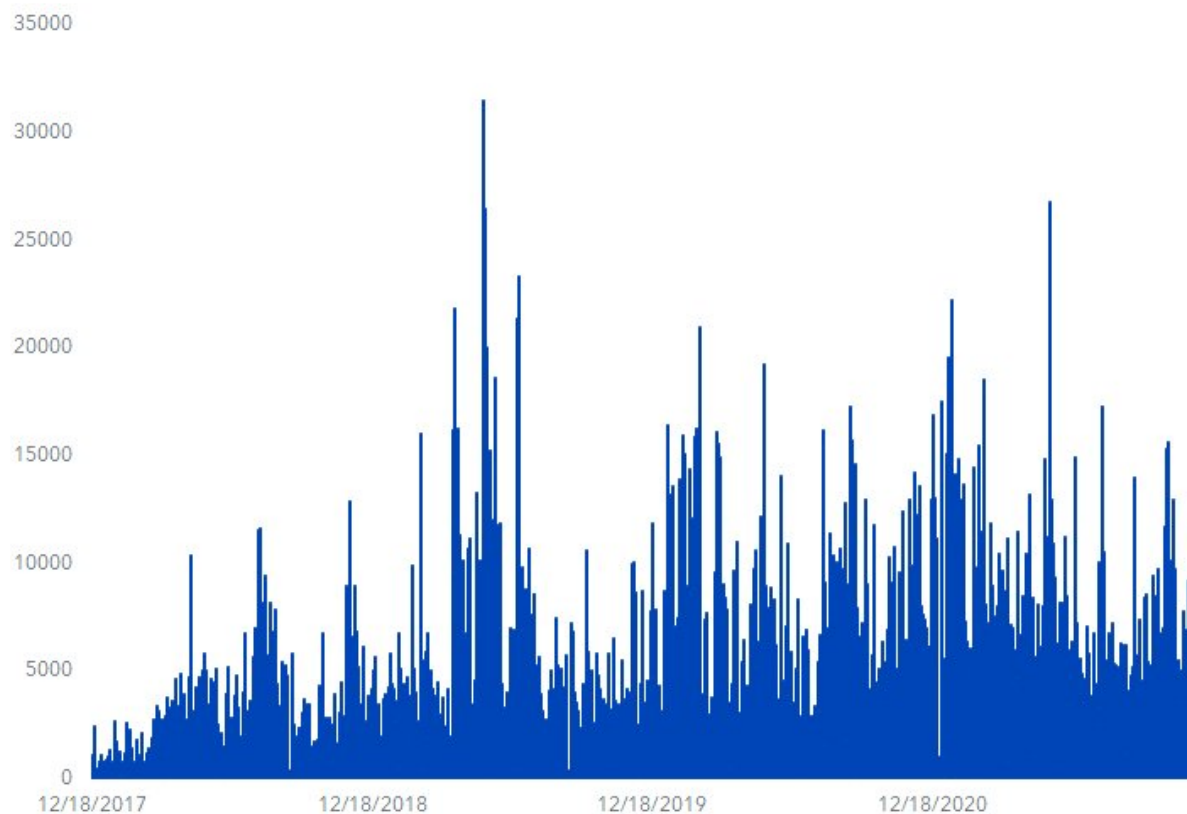
We believe the low historical correlation between Bitcoin futures and other asset classes bodes well for enhancing the risk-adjusted return profile of a multi-asset fund like [WTMF](#). We made significant modifications to [WTMF in June 2021](#) with the goal of improving risk-adjusted return, and it would be worthwhile to examine the correlation between Bitcoin and the restructured Fund. We indeed see that the Bitcoin spot rate is weakly correlated with the Fund since the restructure on June 4, 2021.

	Bitcoin Spot Rate	WTMF
Bitcoin Spot Rate	1	0.28
WTMF	0.28	1

Source: WisdomTree, 6/4/21–11/30/21

Gaining Exposure

Bitcoin futures exposure in [WTMF](#) is achieved through futures contracts traded on the Chicago Mercantile Exchange (CME). CME Bitcoin futures are now highly liquid, with a 60-day average daily volume (ADV) of roughly 7,700 as of November 30, 2021. Assuming a Fund AUM of approximately \$155 million, trading into a 3% allocation would only be 0.23% of the 60-day ADV.



Source: CME Group, 12/18/17–11/30/21

Strategy

It is important to have a well-defined objective when designing a strategy. The incredible rise of Bitcoin prices in recent years is certainly cause for excitement. Caution must be taken, however, as Bitcoin has been extremely volatile historically. Our objective is simple: provide investors with Bitcoin exposure through a systematic strategy designed to lower volatility compared to a long-only strategy while capturing some of the upside potential that Bitcoin provides.

Due to Bitcoin's high historical volatility, for now we allocate a nominal exposure of only 3% to Bitcoin exposure. The goal here is to have the Bitcoin component contribute meaningfully but not dominate the Fund's volatility profile.

Since **WTMF** is a systematic trend-following Fund, the Bitcoin strategy should also be able to dynamically adjust exposures depending on how strong the price trend is. To better protect against prolonged draw-downs, we employ a momentum signal that reacts more quickly to recent information. The amount of the nominal 3% we invest depends on how strong the trend signal is.

Lastly, since Bitcoin has shown a tendency to trend upward over the long term, for now we restrict the model from taking short positions. Instead, we simply allocate to cash. This potentially reduces the volatility of the model. The long/flat model for the Bitcoin component is illustrated in the figure below.



Source: WisdomTree, 12/31/21. Assumes a 3% nominal allocation to Bitcoin futures.

Current Positioning

Positioning by Sector				
	Long	Short	Net	Outlook
Energy	1.8%	0.0%	1.8%	Bullish
Industrial Metals	8.8%	0.0%	8.8%	Bullish
Livestock	3.5%	0.0%	3.5%	Bullish
Grains	5.3%	0.0%	5.3%	Bullish
Precious Metals	0.0%	0.0%	0.0%	Neutral
Softs	0.0%	-1.8%	-1.8%	Bearish
Currencies	--	--	10.0%	Bullish USD
Equities	40.0%	0.0%	40.0%	Bullish
Rates	0.0%	-10.0%	-10.0%	Bearish
Cryptocurrencies	1.5%	0.0%	1.5%	Bullish

Source: WisdomTree, 1/6/22. Bullish: Net exposure in the sector/component is long exposure. Bearish: Net exposure in the sector/component is short exposure. Neutral: Net exposure in sector/component is zero. Positioning is subject to change.

For a current list of holdings, click [here](#).

For the January rebalance, the fund will take a 1.5% long position in Bitcoin futures (represented under the Cryptocurrencies sector in the above chart). Notably, the fund remains net long in most of the commodity sectors, equities and the US Dollar Index. The fund is also short rates contracts.

Conclusion

As part of our goal to continuously improve our managed futures product, [WTMF](#) is now the first systematic trend-following ETF to provide investors with access to Bitcoin futures exposure. The Fund is currently long 1.5% Bitcoin futures following the January rebalance. We believe that adding Bitcoin futures exposure has the potential to enhance the risk-adjusted return of the Fund as well as further diversify the Fund components. Our objective is to provide investors with this exposure in a risk-controlled manner via a systematic long/flat trend-following strategy that reacts quickly to changing market conditions.

Important Risks Related to this Article

There are risks associated with investing including possible loss of principal. An investment in this Fund is speculative, involves a substantial degree of risk, and should not constitute an investor's entire portfolio. One of the risks associated with the Fund is the complexity of the different factors which contribute to the Fund's performance, as well as its correlation (or non-correlation) to other asset classes. These factors include use of long and short positions in commodity futures contracts, currency forward contracts, swaps and other derivatives. Derivatives can be volatile and may be less liquid than other securities and more sensitive to the effects of varied economic conditions.

In addition, bitcoin and bitcoin futures are a relatively new asset class. They are subject to unique and substantial risks, and historically, have been subject to significant price volatility. While the bitcoin futures market has grown substantially since bitcoin futures commenced trading, there can be no assurance that this growth will continue. The price of bitcoin could drop precipitously (including to zero), which would be expected to have a similar impact on the bitcoin futures price. The Fund should not be used as a proxy for taking long only (or short only) positions in commodities or currencies. The Fund could lose significant value during periods when long only indexes rise (or short only) indexes decline.

The Fund's investment objective is based on historic price trends. There can be no assurance that such trends will be reflected in future market movements. The Fund generally does not make intra-month adjustments and therefore is subject to substantial losses if the market moves against the Fund's established positions on an intra-month basis. In markets without sustained price trends or markets that quickly reverse or "whipsaw" the Fund may suffer significant losses. The Fund is actively managed thus the ability of the Fund to achieve its objectives will depend on the effectiveness of the portfolio manager. Due to the investment strategy of this 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.