
INTRODUCING THE WISDOMTREE CBOE RUSSELL 2000 PUTWRITE STRATEGY FUND

Jeremy Schwartz – Global Chief Investment Officer
02/01/2018

The [Russell 2000 Index](#) is one of the most widely followed indexes for U.S. [small-cap](#) stock market exposure. But when [volatility](#) rises or investors' return expectations get ratcheted down due to market [valuations](#), investors search for ways to reduce equity volatility while maintaining exposure to their strategic asset classes.

We believe [option](#)-oriented investment strategies, like those in WisdomTree's first options strategy fund, the [WisdomTree CBOE S&P 500 PutWrite Strategy Fund \(PUTW\)](#), can play an important role in strategic asset allocations when investors are looking for alternative ways to reduce volatility other than changing stock selection and targeting low-volatility stocks from an asset class.

Now investors have a small-cap option to do that in one simple investment that can complement existing small-cap holdings.

The [WisdomTree CBOE Russell 2000 PutWrite Strategy Fund \(RPUT\)](#) seeks to track the price and yield performance, before fees and expenses, of the [Cboe Russell 2000 PutWrite Index \(PUTR\)](#).

Investment Strategy

RPUT invests in one-month [Treasury Bills](#) and sells or "writes" Russell 2000 Index [put options](#). The number of put options sold is chosen to ensure full collateralization, meaning the total value of the Treasury account is expected to 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](#)," meaning the option's strike price is identical to the price of the underlying security.
- Options are written monthly, instead of quarterly or longer, to capture more gross premiums.
- The Fund uses [European-style options](#), so they can be exercised only at maturity.

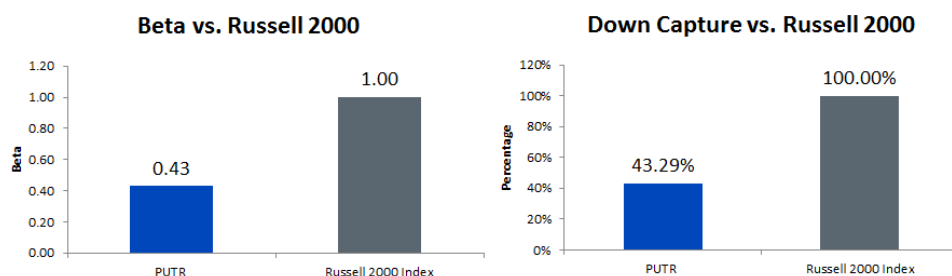
Potential for Less Risk than the Russell 2000

The premium income the Fund receives from selling puts can help mitigate the negative performance of an exposure to just the Russell 2000 Index. Historically, PUTR, the index

RPUT tracks, had lower risk than the Russell 2000 over the period:¹

- PUTR provided 56% of the volatility of the Russell 2000.
- PUTR had only 43% [down capture](#) versus the Russell 2000 and a [beta](#) of less than .5.
- The last two years have been a historically low-volatility environment for the markets generally, with the two-year trailing volatility of the S&P 500 being 7.8%. The Russell 2000 and small caps generally tend to have higher volatility, at 14.21%.
 - o The PUTR index had a volatility level of 7.95%—much closer to volatility of the S&P 500 and significantly lower than the Russell 2000.

Risk and Return Statistics



Vs. S&P 500 Index Benchmark								
	Return	Standard Deviation	Sharpe Ratio	Max. Drawdown	Up Capture	Down Capture	Alpha	Beta
CBOE Russell 2000 PutWrite Index	6.72%	7.95%	0.78	-9.73%	56.54%	103.96%	-2.74%	0.66
Russell 2000 Index	14.29%	14.21%	0.97	-13.38%	126.83%	211.00%	-7.35%	1.52
CBOE S&P 500 PutWrite Index	8.69%	4.49%	1.82	-5.04%	51.89%	40.87%	2.11%	0.44
S&P 500 Index	15.19%	7.81%	1.88	-6.59%	100.00%	100.00%	0.00%	1.00

Sources: WisdomTree, CBOE, Zephyr StyleADVISOR, for the period 11/30/15–12/31/17. Past performance is not indicative of future results. You cannot invest directly in an index. Standard deviation: measure of how widely an investment or investment strategy's return move relative to its average returns for an observed period. A higher value implies more risk, in that there is more of a chance the actual return observed is further away from the average return. Alpha: Measure of risk-adjusted performance that compares how the constituents move relative to a benchmark. Beta: Measure of the volatility of an index or investment relative to a benchmark. Sharpe ratio: Measure of risk-adjusted return. Higher values indicate greater return per unit of risk, specifically standard deviation, which is viewed as being desirable. Up/down capture: Measure of the performance of an investment relative to a benchmark index during an up/down market. Maximum drawdown: The maximum loss for an investment from peak to a trough before a new peak is attained.

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.

Calibrating Expectations

The PUTR Index has been around for only a short amount of time—approximately two years—during which the markets have been in a large, powerful move higher. The PUTR Index has a return profile that limits upside participation in powerful rallies due to the strategy of selling options and collecting the premium income only as the primary driver of return. If markets have more subdued gains going forward or volatility returns and increases the premium income reflected in the PUTR Index returns, a small-cap options strategy could become more important looking forward than it has been over the last two years.

To Summarize: Why Invest in RPUT?

- Put writing has been used by professional investors for decades as a solution to help increase the yield and lower the volatility of equity returns over various market cycles.
- The ability to benefit from [implied volatility](#) typically is higher than realized volatility.
- Premium income can help mitigate the negative performance of investing in the Russell 2000 Index alone.

¹Sources for bullets: WisdomTree, CBOE, Zephyr StyleADVISOR, for the period 11/30/15–12/31/17.

Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. The Fund will invest in derivatives, including Russell 2000 Index put options (“RUT Puts”). Derivative investments can be volatile, and these investments may be less liquid than securities, and more sensitive to the effects of varied economic conditions. The value of the RUT 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 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 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. 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.

For the top 10 holdings of HYIN please visit the Fund's fund detail page at <https://www.wisdomtree.com/investments/etfs/alternative/hyin>

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

For more investing insights, check out our [Economic & Market Outlook](#)

View the online version of this article [here](#).

IMPORTANT INFORMATION

U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an “as is” basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the “MSCI Parties”) expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.
You cannot invest directly in an index.

DEFINITIONS

Russell 2000 Index: Measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

Small caps: new or relatively young companies that typically have a market capitalization between \$200 million to \$2 billion.

Volatility: A measure of the dispersion of actual returns around a particular average level.

Valuation: Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.

Option premium: The current price of any specific option contract that has yet to expire.

Choe Russell 2000 Putwrite Index (PUTR): An Index designed to track the performance of a hypothetical strategy that sells a monthly at-the-money (ATM) Russell 2000 Index put option. The written Russell 2000 put option is collateralized by a money market account invested in one-month Treasury bills.

Treasury Bill: A treasury bill (T-Bill) is a short-term debt obligation backed by the U.S. government with a maturity of one month (four weeks), three months (13 weeks) or six months (26 weeks).

Put options: an option to sell assets at an agreed price on or before a particular date.

“At the money”: option’s strike price is identical to the price of the underlying security.

European-style option: an option that can only be exercised on its expiration date.

Down Capture: Measure of the performance of an investment relative to a benchmark index during a down market.

Beta: A measure of the volatility of a security or a portfolio in comparison to a benchmark. In general, a beta less than 1 indicates that the investment is less volatile than the benchmark, while a beta more than 1 indicates that the investment is more volatile than the benchmark.

Implied volatility: The estimated volatility of a security’s price. Implied volatility is a way of estimating the future fluctuations of a security’s worth. It is backtracked from live option prices with a future maturity date.