CHECKING IN ON THE SIEGEL-WISDOMTREE MODEL PORTFOLIOS

Scott Welch – Chief Investment Officer, Model Portfolios
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This article is relevant to financial professionals who are considering offering Model Portfolios to their clients. If you are an individual investor interested in WisdomTree ETF Model Portfolios, please inquire with your financial professional. Not all financial professionals have access to these Model Portfolios.

We last wrote specifically about the **Siegel-WisdomTree Model Portfolios** back in August 2021. It is time for an update.

Before we dive in, let's remind ourselves of the investment mandates we were solving for when we launched these models back in 2020.

First, most investors have four common investment objectives with respect to their investment portfolios (though each person's "weighting" to an objective may differ):

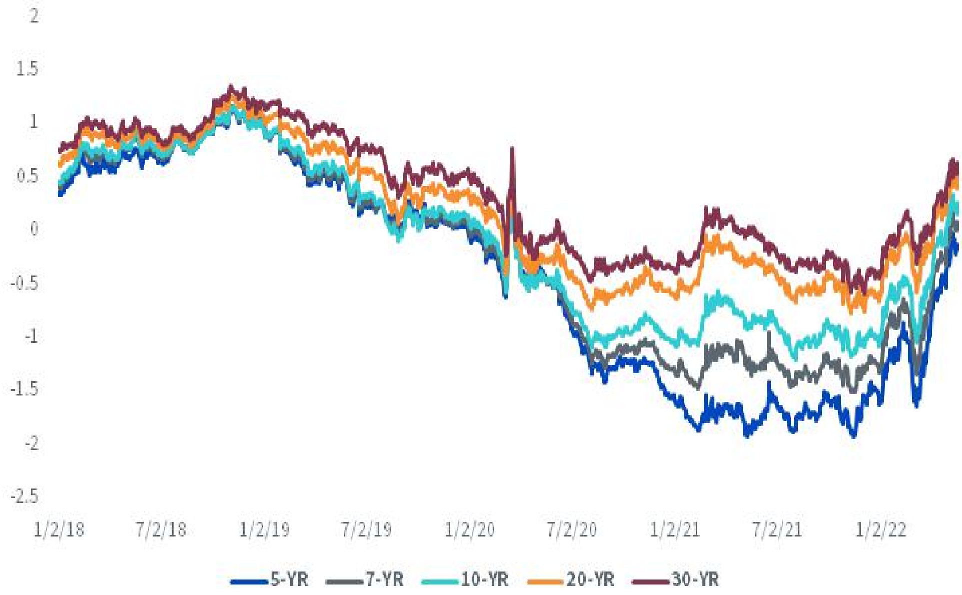
1. **Generate sufficient current income to maintain or improve their current lifestyle**
2. **Do not outlive their money (i.e., make sure the portfolio lasts at least as long as they do)**
3. **Ensure that family legacy or impact/philanthropic goals can be met**
4. **Minimize fees and taxes along the way**

These common objectives face two primary challenges as we look out over the investment horizon.

1. Low interest rates: While interest rates are rising (a trend we believe will continue, with fits and starts), the absolute level of rates remains low by historical standards. It is true that the Fed has embarked on what most investors expect to be an aggressive "rate hike regime" as it belatedly acknowledges it is "behind the curve" on inflation, but given that it started from a baseline of zero, even an aggressive rate hike regime will result in modestly low absolute rates.

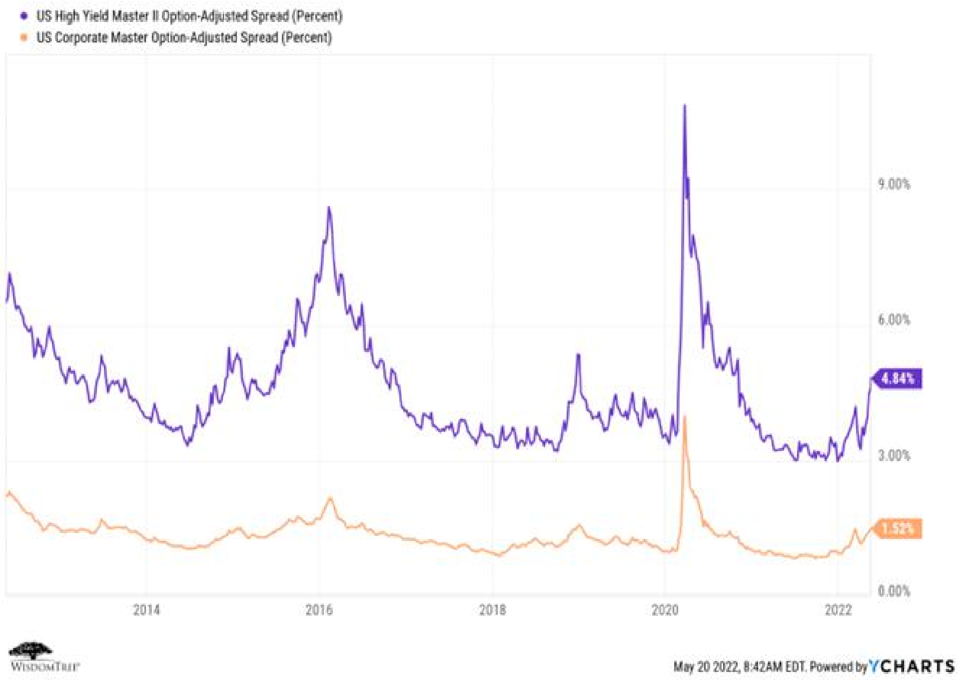
Not until late April/early May did Treasury real levels of interest rates move into slightly positive territory across most of the yield curve, suggesting investors still are locking in low real returns if they buy and hold those bonds until maturity.

U.S. Treasury Real Yields (%)



Source: Treasury.gov, data through 5/19/22. Past performance does not guarantee future results.

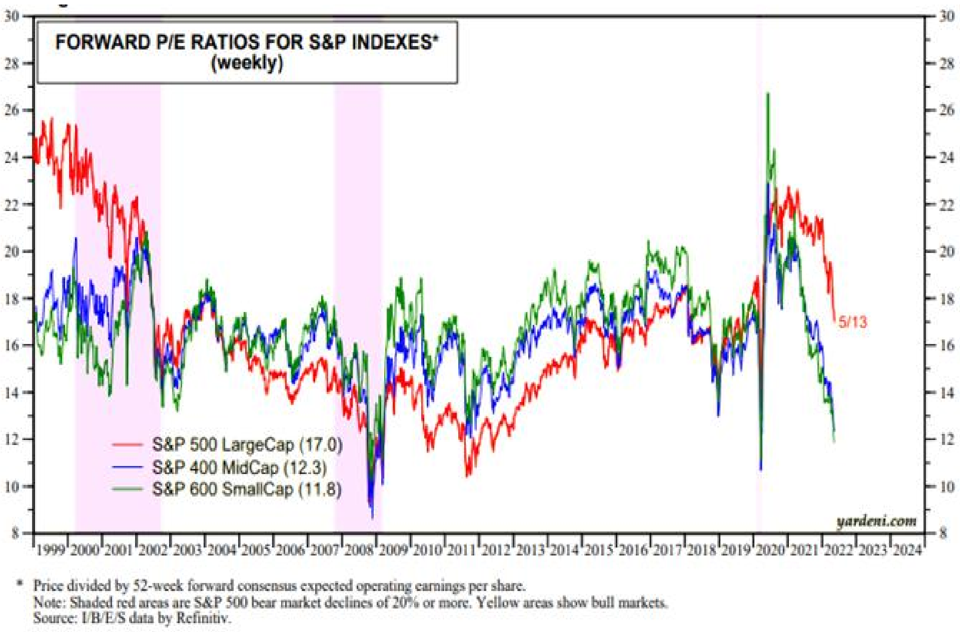
At the same time, while [credit spreads]() have widened year-to-date ("YTD"), they remain well within historical levels.



Source: YCharts, 10-year data through 5/19/22. You cannot invest in an index, and past performance does not guarantee future results.

The implication is that it will remain difficult to generate sufficient current income out of a fixed income portfolio to maintain or improve current lifestyles without taking unwanted additional risk (i.e., increased duration or [credit risk]()).

2. Lower forecasted equity returns: The potential return on any investment is at least partly a function of what you pay for it today. Despite the YTD market declines, equity market [valuations]() do not represent "screaming buys" by historical standards (though they appear more attractive in [small-]() and [mid-cap]() [stocks]()). Our own estimates are for roughly 5% real return versus a historical real return rate of 6.5%–6.7%.



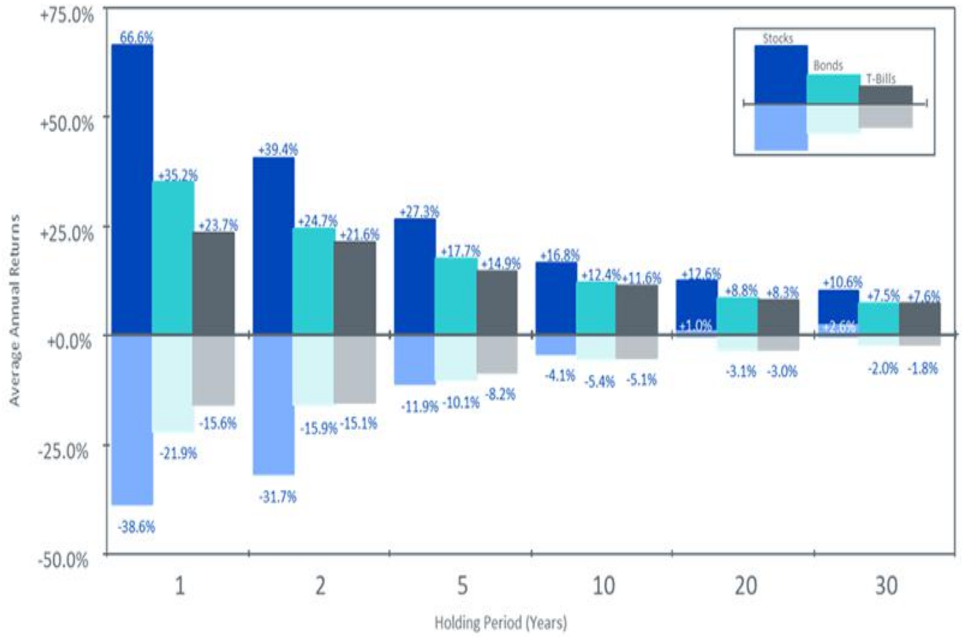
Source: Yardeni Research, as of 5/19/22. You cannot invest in an index, and past performance does not guarantee future results. Forward P/E Ratio: Share price divided by compilation of analyst estimates for earnings per share over the coming 12-month period. These estimates may be subject to revision or proven incorrect over time.

The implication is that it may be more difficult to build portfolios that have a sufficient longevity profile to accommodate increased life expectancies without taking on additional equity risk.

So, the question becomes—how can we build a "better mousetrap" to the traditional "60/40" portfolio that can potentially address most investors' objectives in the face of current and expected future market environments? Fortunately, there are things we can do.

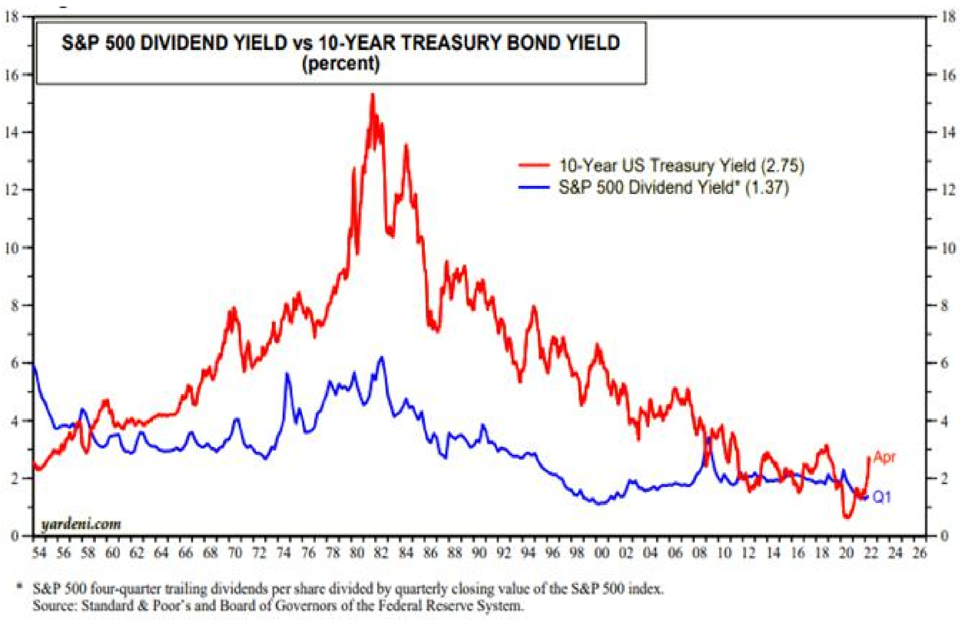
Drawing on the research of Dr. Jeremy Siegel of the Wharton School (a since-inception strategic investment advisor to WisdomTree), we know that, over a reasonable time horizon, stocks have done better than bonds, and even the worst historical periods for stocks have been better than that of either bonds or cash.

Maximum and Minimum Returns 1802 - 2020



Source: Siegel, Jeremy Stocks for the Long Run (2014), with updates to 2019. Copyright Jeremy J. Siegel. Y-Bill History extended by analysis of interest rates, default risk, and term structures of comparable bonds with available information. **Stocks:** The total returns after inflation on the broadest index of stocks available at the time. (Stocks-real-total return index: 1802-2022). **Bonds:** The total returns on an index on U.S. government bonds after inflation. (Bonds-real-total return index: 1802-2022). **T-Bills:** Total returns on U.S. Treasury Bills after inflation. (Bills-real-accumulative index: 1802-2022).

Additionally, current dividend yields from the equity markets remain comparable (though currently lower) to the nominal 10-Year Treasury yield. We argue, however, that equity dividend yields are more sustainable as they represent a return on real assets. In addition, equities hold the potential for upside total return, while bonds do not (if held to maturity).



Source: Yardeni Research, as of 5/2/22. You cannot invest in an index, and past performance does not guarantee future results.

The Siegel-WisdomTree Model Portfolios

It was with these "facts on the ground" that, in collaboration with Dr. Siegel, we constructed the Siegel-WisdomTree Model Portfolios—a **Global Equity** model and the "flagship" **Longevity** model. The Longevity model is explicitly our attempt to build a "better mousetrap" to the traditional 60/40 portfolio:

1. **A targeted (but not fixed) 75% allocation to yield-focused equities to improve current income generation, the longevity profile and the legacy potential of the overall portfolio (Investor Objectives #s 1, 2 and 3). The yield-focused nature of the selected equity securities means they tend to have a lower equity beta profile.**
2. **A targeted (but not fixed) 25% fixed income allocation that is constructed for quality income generation in a risk-controlled manner and to function as an appropriate equity risk hedge (Investor Objective #1).**
3. **The portfolio is constructed entirely with ETFs to potentially optimize fees and taxes (Investor Objective #4).**

When we say "targeted but not fixed" allocations, it simply means that we have the ability to deviate on a marginal basis as market conditions change. Currently, the portfolio is 72/22/6, with a 6% "alternatives" allocation to managed futures and commodities (funded equally from equities and fixed income).

We built the Global Equity model on the same principles but in recognition that many advisors prefer to manage their own fixed income portfolios and/or want to create different risk profile portfolios than our suggested 75/25.

The potential results of our asset allocation, portfolio construction and security selection decisions are:

1. **Improved current income generation**
2. **A better longevity profile (i.e., reduced short-fall risk)**
3. **Better potential for funding legacy objectives**
4. **An expected slightly higher standard deviation than a traditional 60/40 portfolio. That is, the investor and advisor are accepting slightly higher short-term volatility in exchange for increased current income and a better longevity profile.**

We launched these models in late 2019, so they now have more than two years of live performance under fairly extreme market conditions (in both directions), and so far, they have performed as expected from both a total return and a yield perspective. The current 6% allocation to "alternatives" reflects the fact that we hold positions in managed futures and broad-basket commodities to mitigate the perceived risks of rising inflation.

Siegel-WisdomTree Longevity Model

3.50% Model 12-Month Dividend Yield (As of 04/30/2022)	0.27% Model Expense Ratio	11/30/2019 Inception date	72% Equity | 22% Fixed Income | 6% Alternative	

Model Performance | Model Allocations | Model Exposures | Fund Performance | Fund Details

As of 4/30/2022	Cumulative Returns			Average Annual Total Returns				
Name	1-Month	3-Month	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception
Siegel-WisdomTree Longevity Model (NAV)	-5.26%	-5.33%	-7.29%	-1.84%	-	-	-	5.83%
Siegel-WisdomTree Longevity Model (MP)	-5.45%	-5.86%	-7.53%	-2.05%	-	-	-	5.66%
75% MSCI ACWI Value - 25% Bloomberg U.S. Aggregate Bond Index	-4.74%	-5.47%	-6.83%	-1.88%	-	-	-	4.65%
60% MSCI ACWI Value - 40% Bloomberg U.S. Aggregate Bond Index	-4.55%	-5.87%	-7.36%	-3.19%	-	-	-	3.51%

Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and principal value of an investment will fluctuate so that an investor's shares, when sold, may be worth more or less than their original cost.

The Model Portfolio performance results shown are theoretical and do not reflect any investor's actual experience with owning, trading or managing an actual investment. Thus, the performance shown does not reflect the impact that economic and market factors had or might have had on decision making if actual investor money had been managed and allocated per the Model Portfolio. Actual performance achieved in seeking to follow the Model Portfolio may differ from the theoretical performance shown for a number of reasons, including the timing of implementation of trades (including rebalancing trades to adjust to Model Portfolio changes), market conditions, fees and expenses (e.g., brokerage commissions, deduction of advisory or other fees or expenses charged by advisors or other third parties to investors, strategist fees and/or platform fees), contributions, withdrawals, account restrictions, tax consequences, and/or other factors, any or all of which may lower returns. While Model Portfolio performance may have performed better than the benchmark for some or all periods shown, the performance during any other period may not have, and there is no assurance that Model Portfolio performance will perform better than the benchmark in the future. Model Portfolio performance calculations assume reinvestment of dividends, are pre-tax and are net of fund expenses.

ETF shares are bought and sold at market price (not NAV) and are not individually redeemable from the Fund. Total returns are calculated using the daily 4:00 p.m. EST net asset value (NAV). Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where Fund shares are listed. Market price returns do not represent the returns you would receive if you traded shares at other times.

For individual Fund standardized performance, Fund-specific links for yield, most recent month-end performance and a prospectus, please click [here](#).

Conclusion

We launched the Siegel-WisdomTree Model Portfolios in an attempt to address what we believe are some of the primary issues and conditions that investors will face into the foreseeable future. Our view is, simply, that the traditional "60/40" portfolio will face significant headwinds in meeting investor objectives as we move through this decade and the next. We believe we have succeeded in constructing a "better mousetrap."

Financial advisors can learn more about these models and how to successfully position them with end clients at our newly launched **Model Adoption Center**.

Important Risks Related to this Article

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You cannot invest directly in an index.

DEFINITIONS

Interest rates : The rate at which interest is paid by a borrower for the use of money.

Federal Reserve : The Federal Reserve System is the central banking system of the United States.

Rate Hike : refers to an increase in the policy rate set by a central bank. In the U.S., this generally refers to the Federal Funds Target Rate.

Inflation : Characterized by rising price levels.

Treasury : Debt obligation issued by the U.S. government with payments of principal and interest backed by the full faith and credit of the U.S. government.

Bond : A fixed-income instrument that represents a loan made by an investor to a borrower (typically corporate or governmental).

Credit spread : The portion of a bond’s yield that compensates investors for taking credit risk.

Credit risk : The risk that a borrower will not meet their contractual obligations in conjunction with an investment.

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.

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

Mid-Cap : Characterized by exposure to the next 20% of market capitalization (after the top 70% have been removed) within the Value, Blend or Growth style zones with the majority of the fund’s weight.

Stock : A stock (also known as equity) is a security that represents the ownership of a fraction of a corporation. This entitles the owner of the stock to a proportion of the corporation's assets and profits equal to how much stock they own. Units of stock are called "shares."

60/40 Portfolio : A portfolio of 60% equities and 40% fixed income.

Dividend yields : Refers to the trailing 12-month dividend yield. Dividends over the prior 12 months are added together and divided by the current share price. Higher values indicate more dividends are being generated per unit of share price.

Treasury yield : The return on investment, expressed as a percentage, on the debt obligations of the U.S. government.

Commodity : A raw material or primary agricultural product that can be bought and sold.

Standard deviation : measure of how widely an investment or investment strategy’s returns 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 farther away from the average return.

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