IMPLEMENTING PUT WRITE STRATEGY IN EQUITY ALLOCATIONS

Gaurav Sinha – Associate Director, Asset Allocation and Modern Alpha
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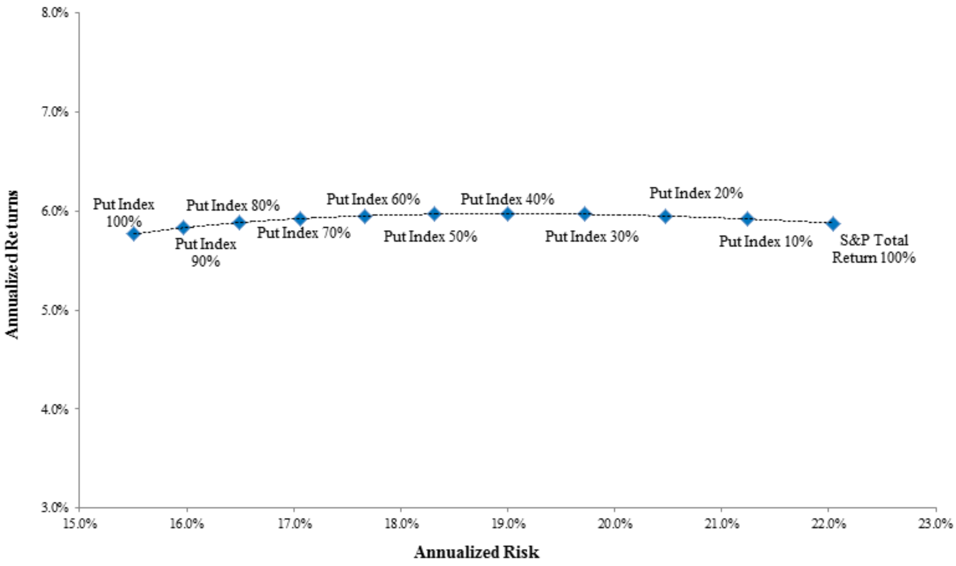
Markets often go through turbulent phases, and just like a sea captain can never know with 100% certainty when his ship will hit turbulent waters in vast oceans, an investor cannot predict volatile bouts in the markets all the time. Thus, a wise move for investors could be incorporating potential “shock absorbers” in portfolios. This may enable a smoother sail through turbulent markets. One such shock absorber, we believe, could be the WisdomTree CBOE S&P 500 PutWrite Strategy Fund (PUTW), which can provide a cushion to portfolio drawdowns during periods of equity corrections. Below, I want to highlight how complementing equity allocations with PUTW can help lower portfolio volatility, especially during large market drawdowns. **Refreshing Put Write Strategy Basics** Before we get into the details of implementing PUTW in equity allocations, let’s take a step back to refresh on the strategy mechanics. The Fund tracks the CBOE S&P 500 PutWrite Index (PUT) and involves selling monthly S&P 500 put options. These options are struck at the money on their roll date and can only be exercised on their maturity date. Also, the PUTW Fund and options being sold are completely cash collateralized with one-month and three-month Treasury bills. This means PUTW returns are expected to be positively correlated to S&P 500 Index returns by virtue of the options positions; however, physically the Fund only holds cash in the account from the option premiums it has sold. In other words, PUTW could be another way of getting beta to equity markets. **The question then becomes, how is it different?** The answer is that by selling put options, PUTW collects option premiums, and it is these premiums that act as a potential cushion on the downside. An investor getting beta to equities through PUTW has the same exposure on the downside as an investor buying investment vehicles that track the S&P 500 Index. However, PUTW has collected an upfront premium, and this could make the ride cushioned on the downside. **Lowering Volatility by Blending PUT Write in an Equity Portfolio** Now, the next question arises: How would my portfolio’s risk/return profile change by complementing my equity allocation with a put write strategy? The chart below conveys how blending the S&P 500 Index with PUT almost linearly decreases the annualized risk in the hypothetical index blend. An investor who complemented an equity allocation with a strategy using put writing may have realized lower volatility throughout this period. **Blending PUT Index with S&P Total Return Index All Time–06/20/2007–12/31/2015**



Period starts on 6/20/07, the inception date of PUT.
Source: Bloomberg, as of 12/31/15.

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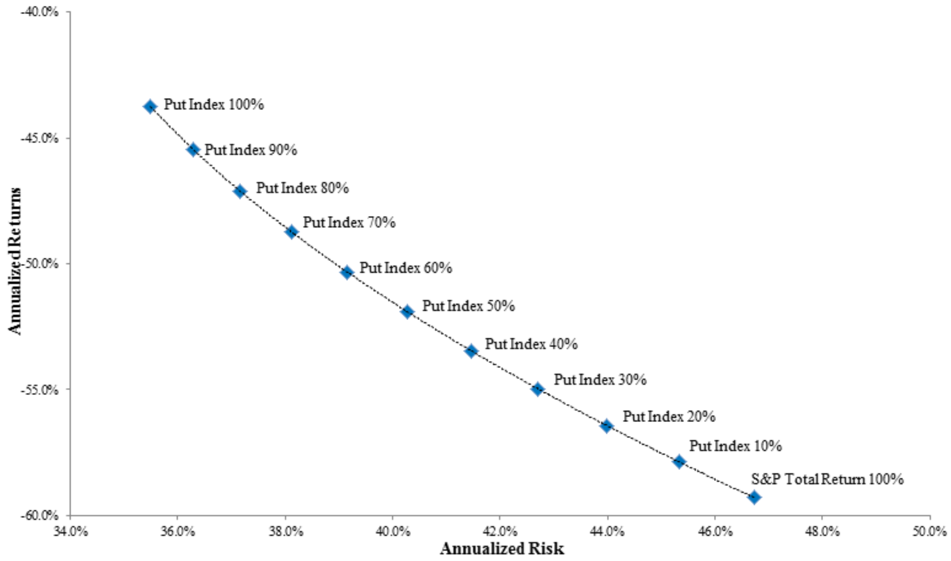
The Concern about Big Crashes Even more interesting is the answer to the next common question: How would this strategy perform during extreme market negative moves? To answer this, we focused on the crisis period starting in May 2008 and lasting through March 2009. During this time frame, the S&P 500 experienced its biggest drawdowns in recent history, finding its bottom in March 2009 before bouncing back again. Unprepared investors could have lost almost 60% of their equity allocations on an annualized basis during this time.[1] However, following the same chart format as above, the chart below shows that a hypothetical blending of PUT with the S&P 500 Index may have not only helped reduce risk but would have also had lower drawdowns or possibly better returns. This was a partial shock absorber to the market volatility. **Blending PUT Index with S&P Total Return Index Peak of Financial Crisis–05/19/2008–03/09/2009**



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Investors who complement their current equity allocations with WisdomTree's PUTW Fund could maintain a positive beta to equity markets while mitigating overall risk in their allocations. We believe PUTW could provide smoother sailing during tough times in the markets. ***Unless otherwise noted, data source is Bloomberg, as of 12/31/15.***

[1]Source: Bloomberg.

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DEFINITIONS

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

CBOE S&P 500 PutWrite Index (PUT) : Measures the performance of a hypothetical portfolio that sells S&P 500 Index (SPX) put options against collateralized cash reserves held in a money market account. The PUT strategy is designed to sell a sequence of one-month, at-the-money, S&P 500 Index puts and invest cash at one- and three-month Treasury Bill Rates. The number of puts sold varies from month to month but is limited so that the amount held in Treasury Bills can finance the maximum possible loss from final settlement of the SPX puts.

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.

Rolling : trading out of a security that is close to maturing and into the same or similar security with a later maturity date.

Maturity : The amount of time until a loan is repai.

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).

S&P 500 Index : Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.

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

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.