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# WBAL: THE PROBLEM-SOLVING ETF OF ETFS

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## The Known Quantity

What defines a “balanced fund” is in the eye of the beholder. For some [mutual funds](#), a 60%/40% equity/fixed income mix one year might be 50%/50% the next year. Who knows? No one knows. How boldly a fund may deviate from the original mandate is guesswork.

Hard-and-fast rules can help solve the problem. Our new ETF, the [WisdomTree Balanced Income Fund \(WBAL\)](#), is a 60%/40% equity/fixed income ETF of ETFS. Only market drift will take it away from 60/40. And even if that does happen, we [rebalance](#) it.

## Addressing the Problem of Weak Managers

A benefit of WBAL’s ETF-of-ETFS structure is that, despite the current weighted-average expense ratio of WBAL’s 12 underlying ETFS being 32 [basis point \(bps\)](#), we structured it so that its all-in cost will always be 35 bps, or 3 incremental basis points beyond what would be incurred from owning the 12 ETFS individually.

Those 12 ETFS are all rules based, so they tap into classic WisdomTree [smart beta](#) methodologies such as weighting equity holdings by [dividends](#), not [market capitalization](#). That is one of the nice benefits of a balanced fund that comes from a smart beta-oriented firm.

Early last year, [S&P Dow Jones Indices](#) published research that exposed the pressure that has been building on [active money managers](#). It found that only 30.8% of U.S. [large-cap](#) mutual funds outperformed their benchmarks over three years.<sup>1</sup> Perhaps more disturbingly, of those funds, only 5.2% went on to outperform in the subsequent three years.

According to Morningstar, the asset-weighted median expense ratio for U.S.-domiciled allocation funds is 0.64%.<sup>2</sup> So many mutual funds cannot compete; they trip over their own expense ratios.

Consider those 64 basis points in the context of the 2.68% yield of WBAL’s benchmark.<sup>3</sup> Take out that fee—or more—and a large chunk of any portfolio’s income can get gobbled up in a low-yield environment. In contrast, WBAL’s 0.35% expense ratio is considerably lower than the aforementioned norm.

## Common Sense

WBAL has a threefold engagement with prudent investing concepts: For one, it buys equities and liquidates bonds after the former underperforms, and vice versa. Second, it buys beaten-down asset-class sleeves at the underlying ETF level at rebalancing time. Third, its subcomponent ETFs engage [value](#) screens at the individual security level.

WBAL also picks up on the tendency of smaller companies to potentially outperform large companies. Again, this happens on several planes: The underlying ETFs ritually liquidate expensive companies by nature of not being cap weighted. Then WBAL reallocates to asset classes whose weights have drifted lower, and those asset classes tend to be populated by relatively smaller companies.

### WBAL's Layers

As we dig into WBAL, built-in common sense jumps out. It engages in disciplined rebalancing, its expense ratio is nearly half the cost of the typical allocation fund, it taps into smart beta factors and, of course, it comes in an ETF structure. That brings with it tax, transparency and [liquidity](#) benefits, a key part of the reason trillions of dollars have flowed into ETFs over the last two decades.

*In March 2018, WBAL was named Best New Asset Allocation ETF at the ETF.com Awards.<sup>4</sup>*

<sup>1</sup>Source: "Active Fund Managers Rarely Beat Their Benchmarks Year After Year," CNBC, citing Fleeting Alpha: Evidence From the SPIVA and Persistence Scorecards, 2/17.

<sup>2</sup>Source: Morningstar 2017 Global Fund Investor Experience Study.

<sup>3</sup>Source: WisdomTree, as of 3/8/18. Past performance is not indicative of future results. Benchmark represents a 60% weight to the [MSCI ACWI](#) and 40% to the [Bloomberg Barclays U.S. Aggregate Index](#). You cannot invest directly in an index. Dividend yield: A financial ratio that shows how much a company pays out in dividends each year relative to its share price.

<sup>4</sup>For more information please click [here](#).

### Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. The Fund invests in other ETFs, and the investment performance and risks may be directly related to the investment performance and risks of such ETFs. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. Investments in emerging, offshore or frontier markets are generally less liquid and less efficient than investments in developed markets and are subject to additional risks, such as risks of adverse governmental regulation and intervention or political developments. Funds focusing their investments on certain sectors may be more vulnerable to any single economic or regulatory development. Fixed income investments are also subject to credit risk, the risk that the issuer of a bond will fail to pay interest and principal in a timely manner or that negative perceptions of the issuer's ability to make such payments will cause the price of that bond to decline. High-yield or "junk" bonds have lower credit ratings and involve a greater risk to principal. Fixed

income investments are subject to interest rate risk; their value will normally decline as interest rates rise. The Fund invests in the securities included in, or representative of, its Index regardless of their investment merit, and the Fund does not attempt to outperform its Index or take defensive positions in declining markets. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

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](#)

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**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.

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## DEFINITIONS

**Mutual Funds**: An investment vehicle made up of a pool of moneys collected from many investors for the purpose of investing in securities such as stocks, bonds, money market instruments and other assets.

**Rebalance**: An index is created by applying a certain set of selection and weighting rules at a certain frequency. WisdomTree rebalances, or re-applies its rules based selection and weighting process on an annual basis.

**Basis point**: 1/100th of 1 percent.

**Smart Beta**: A term for rules-based investment strategies that don't use conventional market-cap weightings.

**Dividend**: A portion of corporate profits paid out to shareholders.

**Market Capitalization**: Market cap = share prices x number of shares outstanding. Firms with the highest values receive the highest weights in approaches designed to weight firms by market cap.

**Active manager**: Portfolio managers who run funds that attempt to outperform the market by selecting those securities they believe to be the best.

**Large-Capitalization (Large-Cap)**: A term used by the investment community to refer to companies with a market capitalization value of more than \$10 billion. Large cap is an abbreviation of the term "large market capitalization". Market capitalization is calculated by multiplying the number of a company's shares outstanding by its stock price per share.

**Value**: Characterized by lower price levels relative to fundamentals, such as earnings or dividends. Prices are lower because investors are less certain of the performance of these fundamentals in the future. This term is also related to the Value Factor, which associates these stock characteristics with excess returns vs the market over time.

**Liquidity**: The degree to which an asset or security can be bought or sold in the market without affecting the asset's price. Liquidity is characterized by a high level of trading activity. Assets that can be easily bought or sold are known as liquid asset.

**MSCI ACWI Index**: A free-float adjusted market capitalization-weighted index that is designed to measure the equity market performance of developed and emerging markets.

**Bloomberg U.S. Aggregate Bond Index**: Represents the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, as well as mortgage and asset backed securities.