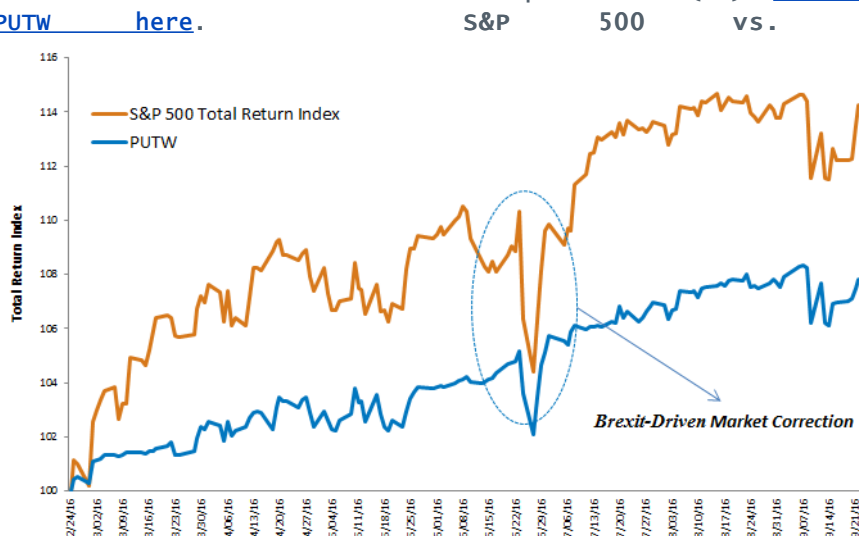


NAVIGATING A BUMPY INVESTMENT RIDE THROUGH AN ALLOCATION TO PUT WRITE

Gaurav Sinha – Associate Director, Asset Allocation and Modern Alpha
10/10/2016

Back in early March, I wrote about [how investors can help reduce the volatility of their equity portfolio](#) by implementing the [WisdomTree CBOE S&P 500 PutWrite Strategy Fund \(PUTW\)](#). Now that PUTW has completed six months of live performance, I want to revisit it to see whether it has served as a [volatility](#) reduction strategy. Below, I compare performance of PUTW (during a period of stress in the market during the Fund's history) to the [S&P 500 Index](#). A Bumpy Ride with Sudden Bouts of Volatility It's no secret that markets are prone to spurts of volatility, and even in most upward-trending periods there can be sudden bouts of uncertainty. In 2016, the S&P 500 continued to attain new heights; however, the ride has been anything but smooth. Just when markets started rallying in early 2016, driven by a U.S. Federal Reserve (Fed) that was reluctant to [hike rates](#) quickly, suddenly June brought heightened worries from across the Atlantic when Britain voted to leave the European Union (EU). [View a standardized performance of PUTW here](#).



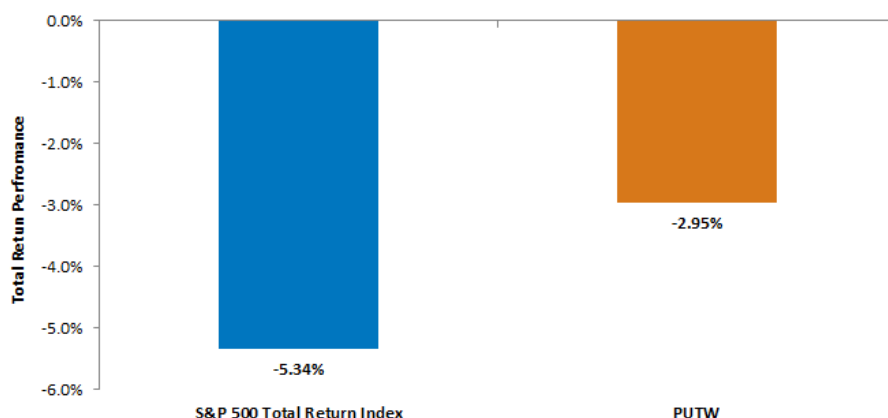
Source: Bloomberg, as of 9/23/2016. Past performance is not indicative of future results. You cannot invest directly in an index.

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 redeemed, may be worth more or less than their original cost. Performance data for the most recent month-end is available at www.wisdomtree.com.

WisdomTree shares are bought and sold at market price (not NAV) and are not individually redeemed 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.

As volatility came back and equities corrected following [Brexit](#), the S&P 500 lost 5.34% in a few days. Interestingly, PUTW suffered a correction of -2.95%. In other words, there was an

outperformance of 239 basis points (bps)—a feature of this strategy that we earlier highlighted and was empirically evident in times when it was most needed! S&P 500 vs. PUTW Brexit Volume, 6/23/2016–6/24/2016



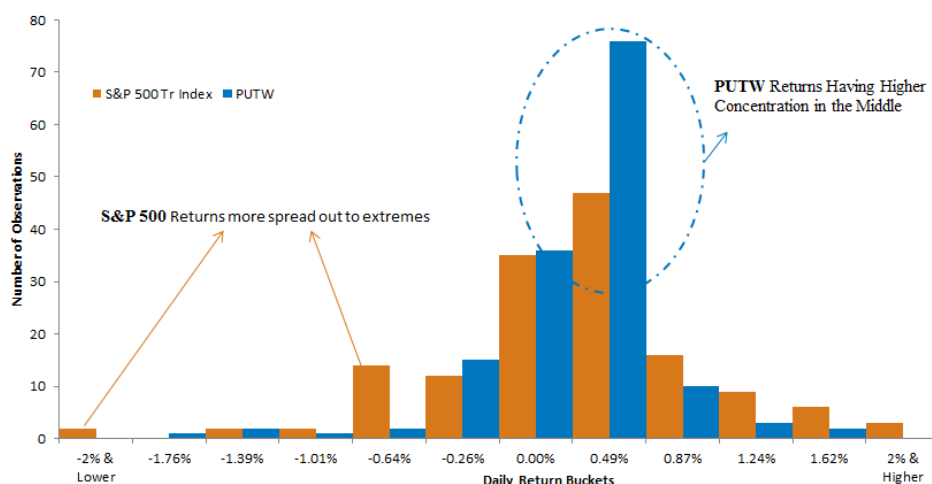
Source: Bloomberg, as of 09/23/2016. Past performance is not indicative of future results. You cannot invest directly in an index.

How about Overall

Daily Returns? A Skeptical Risk Manager's Approach Was the Brexit outperformance merely a coincidence? There is another type of chart that is often used in risk management literature. Risk analysis often involves bucketing returns in various slots and counting the number of observations corresponding to each bucket or slot. If a strategy is less volatile, most of its returns should be concentrated in buckets closer to zero, while a more volatile strategy would see higher number of observations in return buckets that are more extreme or far away from zero. Risk managers call this chart the distribution of returns. The chart below compares the distribution of returns for the S&P 500 and PUTW. What we see is the following:

- PUTW returns in last six months were more concentrated in the middle (closer to zero in either direction)
- S&P 500 returns had wider variance, with certain days as high as +/-2% returns
- In contrast, PUTW did not have any days with greater than +/-2% return

Less Fat Tails of PUTW, Implies Better Protection for Investors (2/24/16–9/23/16)



Source: Bloomberg, as of 09/23/2016. Past performance is not indicative of future results. You cannot invest directly in an index.

More than anything

else, markets hate uncertainty and, looking ahead, both the economic and political outlooks seem uncertain. Most certainly, the U.S. presidential election is providing uncertainty and the race has been close so far. The Fed's monetary policy has an element of indecisiveness, more so if the Fed chair, Janet Yellen, continues to internally

debate “to be or not to be” a financial [dove](#) any longer. Internationally, Britain and the EU are negotiating trade agreements with each other as the two parties formalize their bitter divorce. All of this uncertainty suggests there will be increased volatility in the markets. Investors should not forget volatility when putting together their asset allocation. Navigating volatility is essential in order to help generate higher risk-adjusted returns. We believe PUTW could be a great complement to an equity allocation. So far, PUTW has shown the ability to lower volatility of traditional equity strategies as highlighted above, and we believe it could help investors’ allocations by cushioning the ride whenever the investment road gets bumpy. *unless otherwise noted, data source is Bloomberg, as of 9/23/2016.*

Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. The Fund will invest in derivatives, including S&P 500 Index put options (“SPX 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 SPX 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.

Diversification does not eliminate the risk of experiencing investment losses.

Using an asset allocation strategy does not assure a profit or protect against loss. Investors should consider their investment time frame, risk tolerance level and investment goals.

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

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

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.

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.

Brexit: an abbreviation of "British exit" that mirrors the term Grexit. It refers to the possibility that Britain will withdraw from the European Union.

Basis point: 1/100th of 1 percent.

Monetary policy: Actions of a central bank or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.

Dovish: Description used when stimulation of economic growth is the primary concern in setting monetary policy decisions.