

# WisdomTree – Harnessing tactical opportunities using short and leveraged products

Webinar

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# Agenda

## Introduction

## Macro Overview

### **A powerful and versatile investment tool: The Investor's Swiss Army Knife**

Opportunistic trading and expressing tactical views

Managing the equity risk in an equity portfolio

90/60 Multi Asset Portfolio

### **Powerful and versatile tools that need to be managed carefully**

7 Things to remember when investing in S&L ETPs

Short and Leveraged ETPs follow a recipe for returns strictly

Money does not sleep but European Exchanges do

## Q&A



## Macro Overview

# Macro Overview – Key Market Movements

## Global Equities – US tech still leading the pack

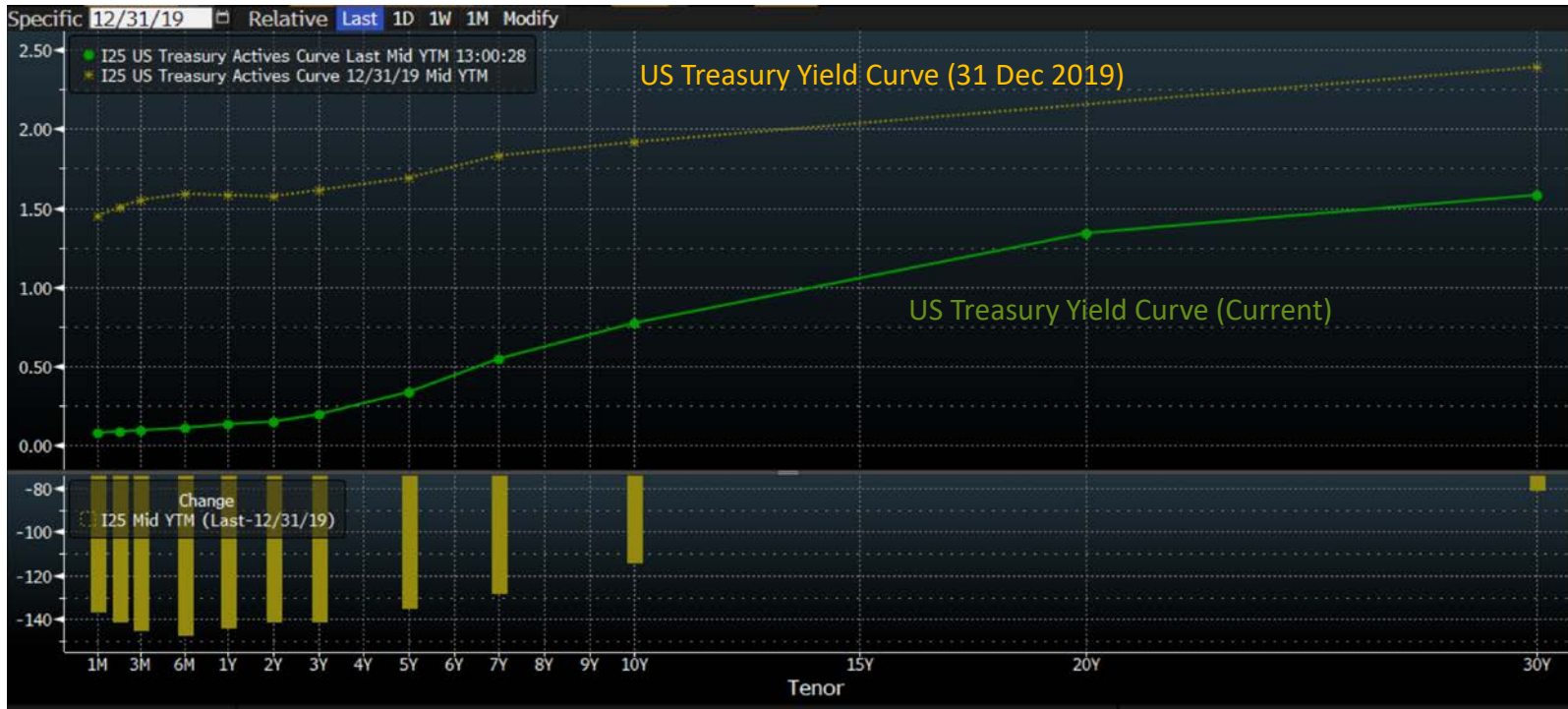


Source: Bloomberg. Data as of 06 October 2020. **NDX Index** refers to NASDAQ 100 Index (USD). **SPX Index** refers to S&P 500 Index (USD). **SXSE Index** refers to Euro Stoxx 50 Index (EUR) and **UKX Index** refers to FTSE 100 Index (GBP).

**Historical performance is not an indication of future performance and any investments may go down in value.**

# Macro Overview – Key Market Movements

US Treasuries – even lower for even longer?

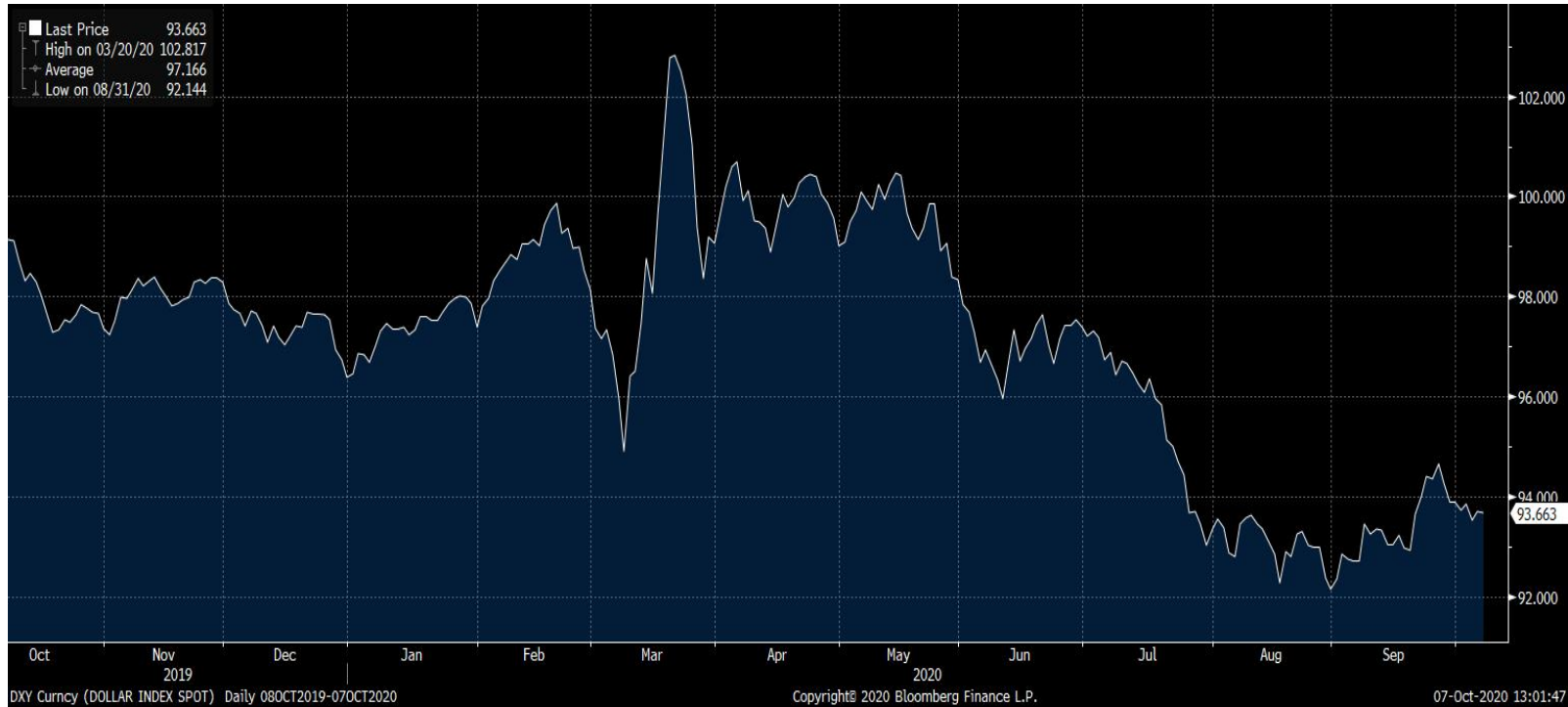


Source: Bloomberg. Data as of 07 October 2020. The bars represent the change in yield between the two curves.

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# Macro Overview – Key Market Movements

## US dollar – a short-lived recovery?



Source: Bloomberg. Data as of 07 October 2020. **DXY Index** is used to show the average price of the US dollar against a basket of currencies.

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# Macro Overview – Key Market Movements

## Commodities – Precious metals shining bright



Source: Bloomberg. Data as of 07 October 2020. **BCOMPTR Index** refers to Bloomberg Precious Metals Subindex Total Return. **BCOMINTR Index** refers to Bloomberg Industrial Metals Subindex Total Return. **BCOMENTR Index** refers to Bloomberg Energy Subindex Total Return. **BCOMAGTR Index** refers to Bloomberg Agriculture Subindex Total Return.

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**A powerful and versatile investment tool  
The Investor's Swiss Army Knife**



## The Investor's Swiss Army Knife – Example Uses



**1. Opportunistic Trading & Expressing tactical views**



**2. Hedging other assets & Managing the risk in a portfolio**



**3. Deploy the portfolio capital efficiently**



**4. Create complex investment strategies**




Source: WisdomTree. October 2020. For illustrative Purpose Only.

# Opportunistic Trading & Expressing tactical views




## Asset Class Debate - The example of US tech stocks

S&P ETPs can be used to express tactical views. Depending on his belief on US Tech, investors can go long or short on the asset class and gain or lose from his investment.

### Illustrative Scenario 1: A bull case for US tech stocks

Tech stocks	Improving fundamentals	Strong financial health	Leaders of innovation
BULL CASE			

### Illustrative Scenario 2: A bear case for US tech stocks

Tech stocks	Profit-taking	Election uncertainty	Fiscal stimulus delay
BEAR CASE			

Source: WisdomTree.

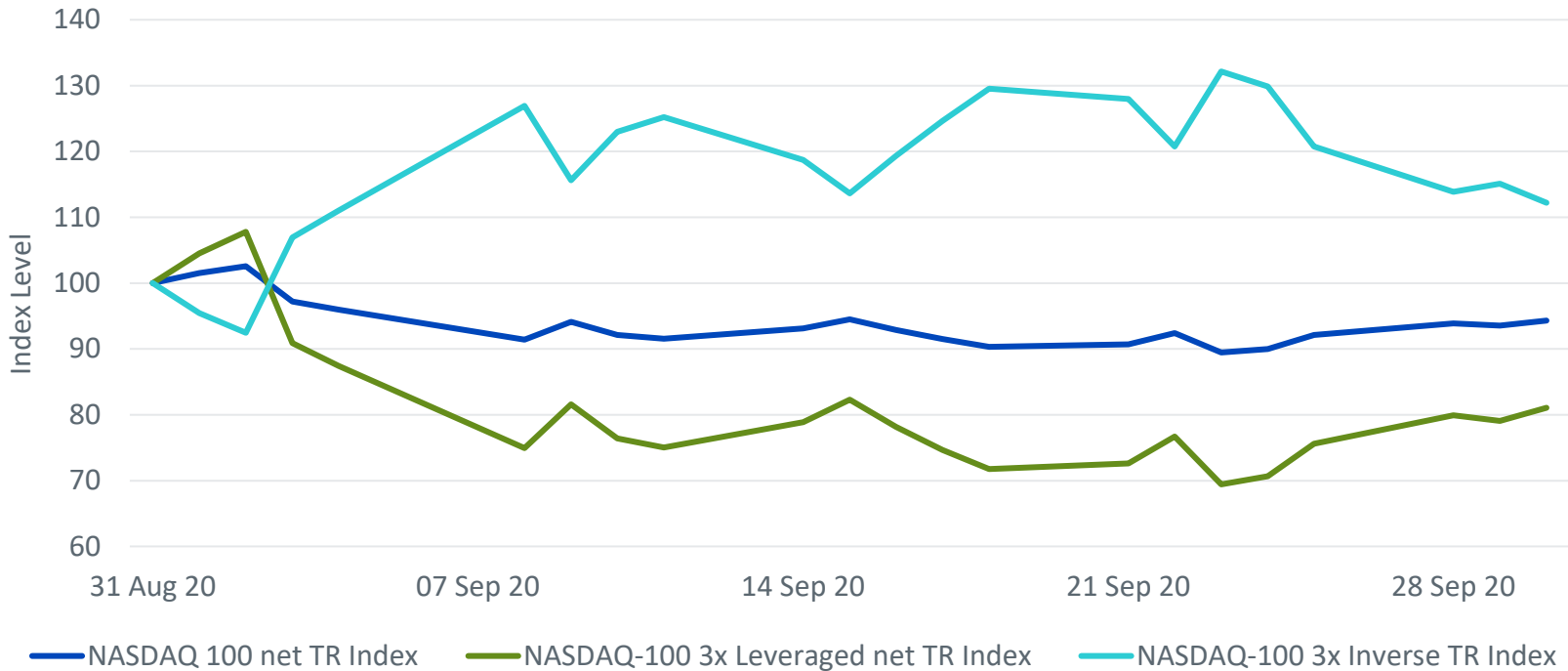
**Forecasts are not an indicator of future performance and any investments are subject to risks and uncertainties**

## Opportunistic Trading & Expressing tactical views

### Asset Class Debate – How would an investment in US Stocks have fared in September.

Looking at US Tech last month, after a months long rally, Nasdaq 100 lost 5.7%

- + A position in a 3x leveraged Nasdaq index would have lost 19%
- + A position in a 3x short index would have gained 12%



Source WisdomTree, Bloomberg. September 2020. Calculations are based on daily returns. All returns are in USD. **Historical performance is not an indication of future performance and any investments may go down in value.** For illustrative purposes only.

## Hedging other assets & Managing the risk in a portfolio

### Tactically hedge equity risk

- + Using short leveraged Equity ETPs, Investor can tactically pilot their investment risk
- + To do so they can
  - stay invested in their core portfolio of assets being stocks, equity ETFs, equity mutual funds..
  - Buy and Sell short leveraged Equity ETP tactically to offset part of the equity risk
- + **Advantages:**
  - ETP can be traded intraday
  - No need to sell the core portfolio
  - Investor can pilot its Beta by buying or selling the right amount of Short ETP

## Hedging other assets & Managing the risk in a portfolio

### Tactically hedge FX risk

- + Using Leveraged currency ETPs, Investor can tactically pilot their Currency risk
- + To do so they can
  - stay invested in their core portfolio of assets being stocks, Bonds, ETFs, mutual funds..
  - Buy and Sell Leveraged currency ETP tactically to offset part of the Currency risk
- + **Advantages:**
  - ETP can be traded intraday
  - No need to have access to FX forwards
  - Investor can pilot its Currency exposure by buying or selling the right amount of Short ETP

Source WisdomTree. October 2020. For illustrative purposes only.

## Deploy the portfolio capital efficiently

### Leveraged Multi Asset Portfolios

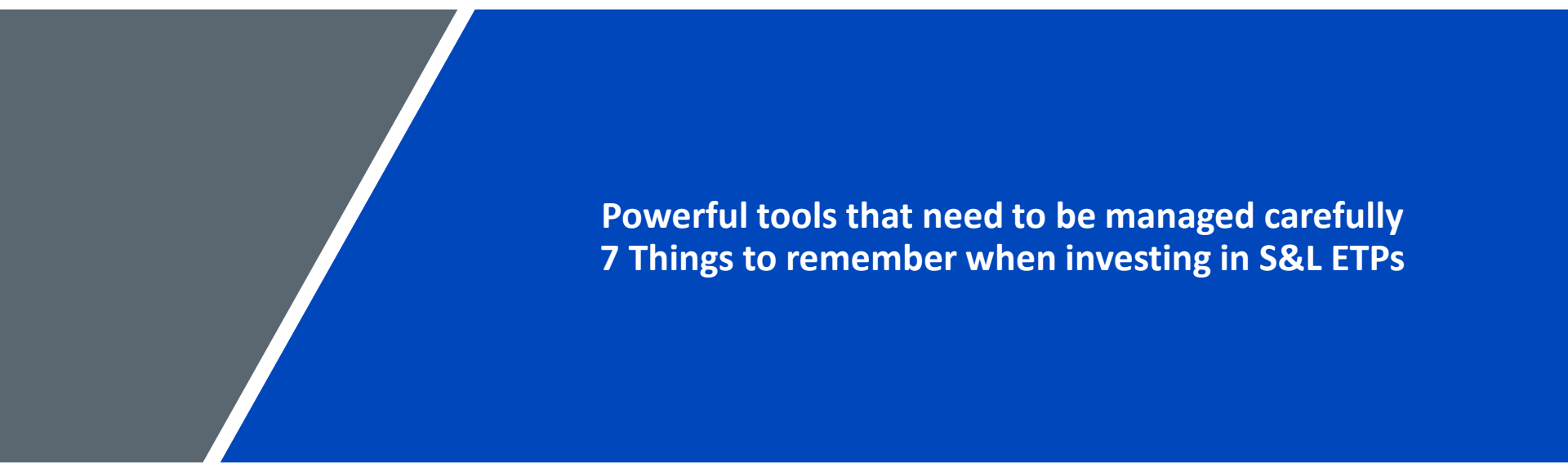
- + Investor can use leveraged ETP to increase the capital efficiency of the Portfolio
- + One example could be a leveraged 60/40 portfolio i.e. a 90/60 portfolio
  - Invest 90% in Equity using leveraged equity ETPs
  - Invest 60% in Fixed Income using leveraged Fixed Income ETPs
- + **Advantages:**
  - Capital invested is 100%
  - No need for leverage facility
  - No derivative needed

Source WisdomTree. October 2020. For illustrative purposes only.

# Create complex investment strategies

## Long Short Strategies

- + Investor can use leveraged ETP to create complex strategies
  
- + Example of such strategies could be:
  - Relative Value Trades i.e. going long a specific stock and short the wider market using a short ETP
  - Duration hedging i.e. going long fixed income asset and hedging the duration with short Fixed Income ETP
  
- + **Advantages:**
  - ETP can be traded intraday
  - Both side of the trade can be traded on exchange
  - No derivative needed



**Powerful tools that need to be managed carefully  
7 Things to remember when investing in S&L ETPs**



## 7 Things to remember when investing in S&L ETPs



1. Short and Leveraged ETPs follow a recipe for returns strictly



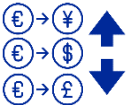
2. S&L ETPs may not always track what you think they track



3. Closing Price and Net Asset Value are not the same thing



4. Money does not sleep but European Exchanges do



5. S&L ETPs are also exposed to Currency



6. Beware of Compounding!



7. Restrikes

[To read the full document, please click here](#)

Source: WisdomTree. October 2020. For illustrative Purpose Only.

# 1. Short and Leveraged ETPs follow a recipe for returns strictly

## The Fair value of an ETP

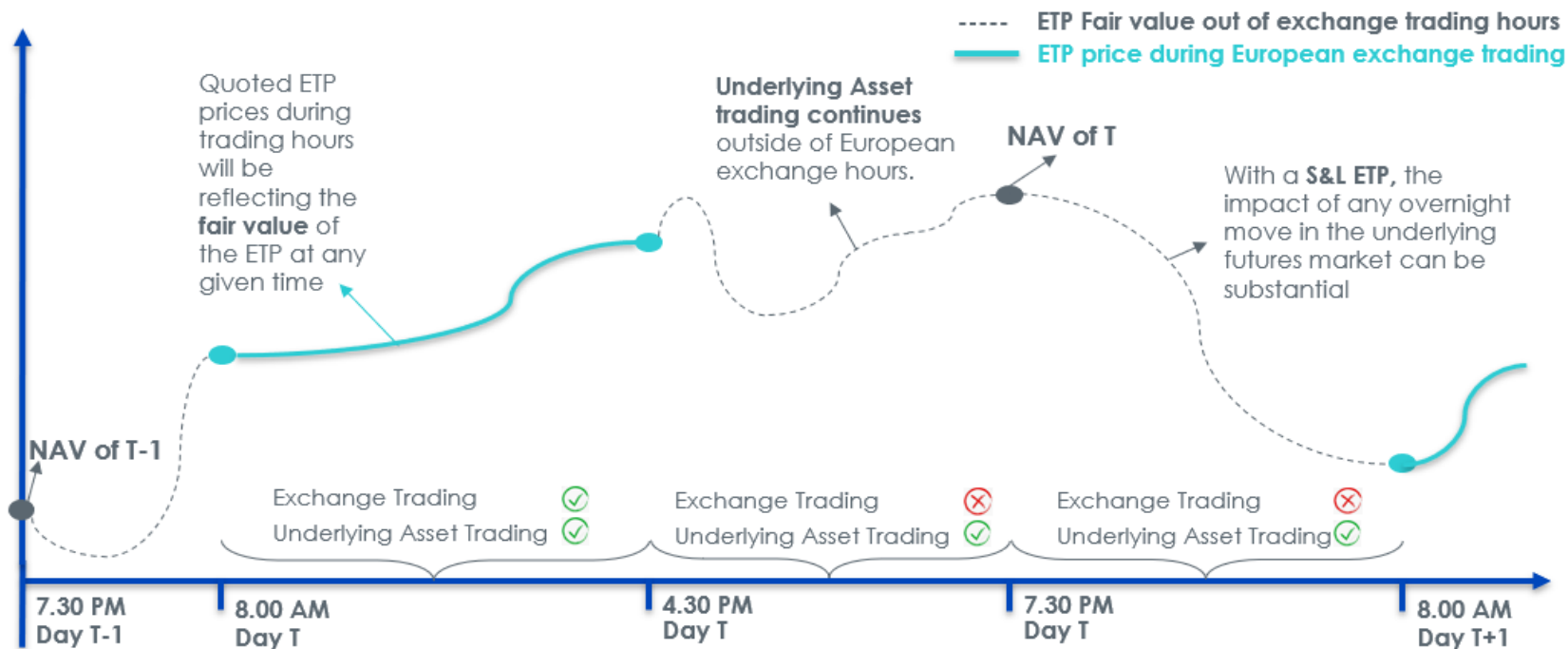
- + Short and Leveraged ETPs (S&L ETPs) are generally structured around an index.
- + In most market conditions, the **Fair Value** of an ETP at a given point in time is inferred from:



Source: WisdomTree. October 2020. For illustrative Purpose Only.

## 4. Money does not sleep but European Exchanges do

### ETP Fair Value and ETP Quoted Price around the clock



**Day T** is a Business Day where the ETP is trading on European Stock Exchanges

**Day T-1** is the Business Day immediately preceding where the ETP is trading on European Stock Exchanges

**Day T+1** is the Business Day immediately Following where the ETP is trading on European Stock Exchanges

Source: WisdomTree. October 2020. For illustrative Purpose Only.

## More Resources – Short & Leveraged Centre

For more educational and market resources about Short & Leveraged ETPs, please visit **WisdomTree's S&L Centre** at:

<https://www.wisdomtree.eu/resource-library/short-and-leveraged-centre>

**Le 7 cose da ricordare quando si investe negli ETP short e leverage**

Underlying Asset      Price vs NAV      Overnight Performance      Currency E  
 Compounding Effect      Restrikes

**1. La ricetta degli ETP short e leverage per ottenere rendimenti**

Gli ETP short e leverage (ETP S&L) sono strumenti complessi che possono comportare un rischio elevato. Devono essere strutturati per riuscire ad offrire i rendimenti short o con leva attesi dagli investitori.

I prodotti ETP sono generalmente strutturati attorno ad un indice. Tale indice rappresenta la performance degli attivi sottostanti il semplice da seguire. Nella maggior parte delle condizioni di mercato, il prezzo (o "fair value") di un ETP in un dato momento si ev

- La performance del suo indice sottostante tra l'ultimo momento in cui è stato calcolato il Prezzo per titolo dell'ETP (noto c e il momento attuale moltiplicato per la sua leva (cioè, per il numero definito nel nome stesso dell'ETP e chiamato "fattore d commissioni).

Nella maggior parte delle circostanze, il fair value può poi essere calcolato con una semplice formula illustrata di seguito.

**Grafico 1: Il fair value di un ETP**

$$\text{ETP Fair Value} = \text{ETP Previous NAV} * \left[ 1 + \text{Leverage Factor} * \text{Performance of Underlying Index (since NAV calculation time)} \right] - \text{Fees \& Costs}$$

**RISORSE E STRUMENTI**

**SHORT E LEVERAGE FAQ SMART**  
 Chiedici qualunque cosa tramite la nostra ricerca FAQ Smart.

**ECONOMIC CALENDAR**  
 Stay current on recent and upcoming market events with our economic calendar.

**GUIDA AGLI ETP SHORT E LEVERAGE**  
 Accedi alla nostra Guida agli ETP Short e Leverage per capire i rischi e i vantaggi degli ETP S&L e come possono essere usati in un portafoglio.

**FLUSSO MENSILE ETP S&L**  
 Scopri gli ultimi trend del settore ETP S&L tramite il nostro report mensile sui Flussi di ETP S&L.

**SIMULATORE DI ETP SHORT E LEVERAGE**  
 Usa il nostro simulatore di ETP short e leverage per elaborare un modello dei rendimenti di un ETP S&L teorico in scenari di mercato differenti.

**LE 7 COSE DA RICORDARE QUANDO SI INVESTE NEGLI ETP SHORT E LEVERAGE**

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