Is Investment Becoming Too Tribal?

"Four legs good, two legs bad" bleated the sheep in Orwell's *Animal Farm*. Looking at how today's world is shaping (my, how old I sound) there is so much polarisation, so much black and white rather than shades of grey, so many being underwhelmed or overwhelmed, but never whelmed (in fact, has anyone ever actually been just whelmed?).

This division appears to have crept into the investment world too. It feels like you have to take sides now to describe your strategy. Are you growth or value; passive or active; large cap or small cap; long term or short term; ESG aware or cynic; and more recently, artificially intelligent or naturally stupid?

History tells us that there is no right or wrong way to make (or lose) money. Investments go up. Investments go down. That's what they do. As an investor, you work on the premise that your chosen ones will go up more than they go down.

Personally, I try to keep things relatively simple. Rather than trying to time the markets (which we know is nigh on impossible to do consistently over time) I prefer to invest in things that the world wants and needs now, and importantly, in the future.

2022 was a terrible year to follow this strategy as oil, gas and mining stocks, all sectors that fell into the "two legs bad" category, surged. 2023 has seen sentiment turn somewhat.

Overweight The Future:

This is why I like to invest in thematic ETFs rather than individual stocks as, by investing across numerous companies in a particular theme, it is more likely that my portfolio will contain the winners while reducing exposure to the ones that don't make it, rather than being "all in" to a particular As last year showed, there will always be money to be made from "old economy" sectors, but surely most of the easy money has been made from these. If you overweight the future in your portfolio it seems to me that you have the chance of owning tomorrow's old economy companies during their formative years. Like many trainees at football academies across the globe, there will be many promising candidates that fail to make the grade but a few will make it, and make it big.

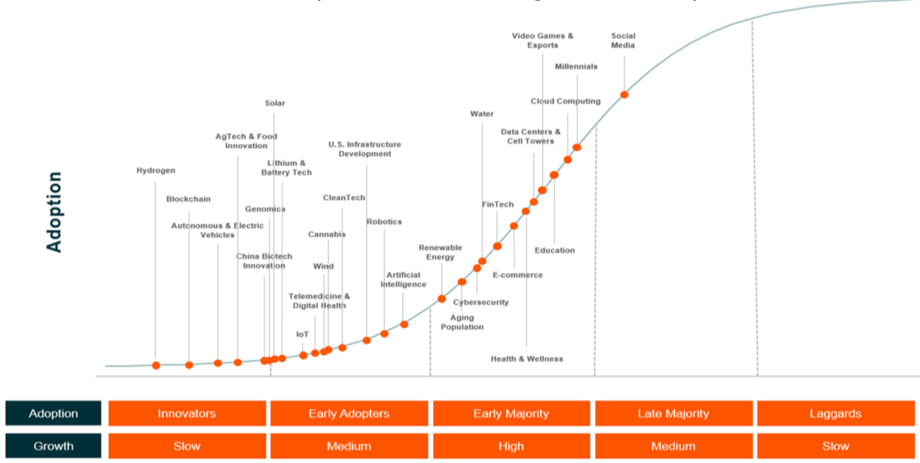
This is why I like to invest in thematic ETFs rather than individual stocks as, by investing across numerous companies in a particular theme, it is more likely that my portfolio will contain the winners while reducing exposure to the ones that don't make it, rather than being "all in" to a particular exponent. Granted, if I was lucky enough to choose the sector winner my return would be greater but my chances of failure would, I'd say, be greater too.

Are Themes Geographically Agnostic?

Are themes geographically agnostic? I'd suggest, with certain exceptions, that they are. The following chart produced by Global X shows this very clearly. Apart from China Biotech Innovation and US Infrastructure Development, every other theme is global. In other words, the development of these sectors is a worldwide phenomenon and they stand to benefit people across all continents, all genders, all ethnicities and all ages. This, to me, sounds like a pretty good place to start looking for rewarding investments.

What I think is significant is where these themes sit on the S curve. Some are far more mature than others and there could be an argument to say that investors have missed the boat to some degree with these. This is why our portfolio has very little, if any, exposure to the so called FAANGS. And just because it is listed as a theme it doesn't mean that they are all necessarily profitable or investible. Ageing population, for example, can encompass anything ranging from banks, other financials, healthcare or mobility transportation – too wide a remit to be generally captured within one particular themed vehicle. Cannabis is another area that, to my mind, is more hype than substance (legalised substance or otherwise!).

Where Do Disruptive Themes Stand?
While each theme follows a unique adoption curve, the chart below estimates the phase of adoption for several themes we cover. Less developed themes plot further to the left on the adoption curve and have both higher risk and higher reward potential. More established themes plot further to the right on the adoption curve.



Source: Global X by Mirae Asset

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Time To Rethink Asset Allocation Models?

As the world moves on, should not asset allocation models do so too? Talking to several professional investors, it is clear that they like the idea of investing in themes but do not know where to put them within their asset allocation framework. So many models are still run along a geographic allocation basis which, if you look at the Global X chart, makes little sense in a developing landscape. Apart from the China and US examples I gave earlier, none of these themes slot neatly into the UK, European, Japanese, US or Emerging Market boxes which would seemingly point to investment opportunities being lost.

Would it not make sense to at least allocate 5-10% of your global equity budget to a new category – Thematics? Most people would have their favourite themes so they could allocate to specific areas such as cybersecurity, robotics and AI, healthcare innovation or clean energy, if they are able to use individual ETFs, or they could use a vehicle that packages these themes up into a one-stop thematic shop.

Either way, it would be a shame to miss out on the potential that some of these ideas are offering.

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