How to use thematic investments in a portfolio

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Building a multi-thematic portfolio can be challenging as there are many pitfalls that can lead to subpar results. An overly concentrated portfolio, a lack of control around the allocation between themes, a lack of focus on smaller, high-potential companies or a lack of discipline and expertise in stock selection can all diminish or even erase the impact of thematic investments. In April 2021, we published '***Thematic Universe: How to harness the power of megatrends in your portfolio***', our first Thematic white paper. This research paper introduced WisdomTree's Thematic Classification system that organises more than two thousand funds and exchange-traded funds (ETFs) into 45 themes and also proposed a qualitative and quantitative framework to select thematic strategies.

To build on our first Thematic paper, we have published our second thematic white paper: ***Investing in the world's future: The efficient use of thematic investment in a portfolio***. In this paper, we dig further into the best way to use Thematic investments in a portfolio. We focus on four topics:

1. Why a theme-based investment approach can boost long-term performance
2. How to build a thematic portfolio: 3 layers of alpha generation
3. Targeting maximum growth with a diversified multi thematic portfolio
4. Multi thematic strategies: An integral part of a multi asset portfolio

Key takeaways from our research:

- Thematic growth is not shared equally across all the stocks in the theme. It is a 'winners take all' world.
- Thematic investments are long-term endeavours, however, a tactical overlay using momentum can help create extra performance in a multi-thematic portfolio and this is where investors can use theme-specific dynamics to their advantage.

- Careful thematic stock selection, based on pure play stocks, expert-selected, is fundamental and allows further improvement of the growth potential of the overall strategy but also enables investors to cast a wide net across the different themes to maximise the chances of picking the future winners in each theme.

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