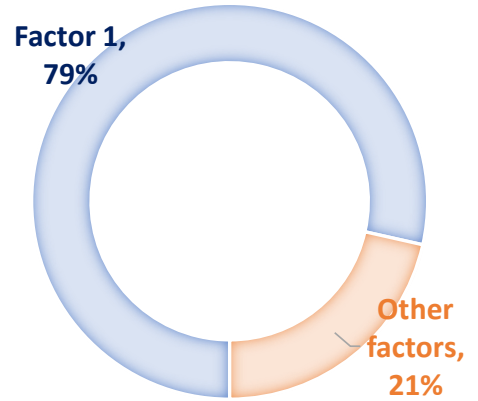




In traditional wealth management institutions, themes are most of the time simply added into the client's portfolio as a sum of one-off ideas depending more on the marketing success of the sellers than the true benefits in terms of risk diversification, expected excess return for the clients. In contrast, Omega Wealth Management aims to bring to its client an objective assessment of investment themes with strong potential to achieve optimal returns while controlling for risks.

Acceleration of our times is phenomenal, the digital revolution is impacting every corner of our life, the energy transition has knocked at our doors & ESG consciousness is in full sway. Disrupting companies are challenging established firms or create new markets; tough periods of renaissance are not an easy ride from the investment perspective as they broaden the range of possible outcomes. Indetermination rules our future. Technologies, economic and social trends are planting the seeds, but the landscape will be swampy and complex. Markets can be unfriendly whatever appealing the theme is! The top of the pop themes in pandemic times in 2020 such as digital, health care and energy transition stocks became massive under performers in H1 2021! It is obvious that **change needs to be managed with discipline and strong judgement in portfolios.**

THEMES: FACTOR EXPLANATION



Moreover, there is a nagging agency problem: most thematic investments are driven by marketing campaigns and product push initiatives led by institutions that have a vested interest in the products they sell. This can lead clients to be loaded with thematics that are highly correlated. An honest recognition of these pitfalls calls for an independent, pragmatic and versatile approach on the key markers of disruption and how they are represented in portfolio.

Learning from observing current thematic practices - It takes more than conviction to succeed. The common practice of thematic investing is 80% investment storytelling and 20% portfolio relevance. OWM aims to reverse this proportion.

Thematic is more emotional decision for the investor that she/he thinks. Most investors biases are magnified with thematics: Overconfidence (justified by the price momentum), Regret (Fear of Missing Out), Survival bias (not seen the risks creative destruction), the Risk Aversion bias (selling winners, keeping losers). Huge marketing and sale efforts comfort these biases and influence the decision. Because the nature of thematic is momentum, only portfolio discipline and authentic independent advice can trump these biases.

Nice thematic stories can hide similar risk factors (see chart above): to explain it, it is not only important to look at the disruption, but at the chain reaction of changes. The proliferation of the digital world has amplified the storage problem, energy demand, and created digital waste. The energy transition towards renewables also means huge initial demand for energy to extract transform and distribute energies. Another example: Quantum computing, VR/AR technologies and Future of Money themes involve common major actors and thus can turn into poor portfolio diversification.

Non-listed assets are not or barely represented in popular thematics. The selection approach is different from listed equities, the later are driven by the optimization of return under condition of risk. PE or VC is contrasting, as the goal is to achieve maximum profits for a limited number of winners to compensate for the death of the losers. As the key success factor is survival of the fittest, risk for the investor and the due diligence are radically different.



Omega Wealth Management aims to bring to its client an objective assessment of investment themes with strong potential to achieve optimal returns while controlling for risks.

In this first paper we develop on an essential part of investing: understanding the full picture of a new investment.

Our unique methodology to score each theme listed according to 5 major pillars allows us to provide a rational approach to investment idea generation. Those 5 pillars are summarized hereafter:

- Probability to materialize:** to take an example, the business of teleportation would be a strong investment opportunity IF it had a high probability to exist in coming years. While we can't deny the possibility of a breakthrough in next 5-10 years, it is quite unlikely that we are going to be beamed to another place by 2030, unlike Spock in Star Trek!
- Actionable:** a good candidate to select needs to provide a clear way to invest. Typically offering some pure players in the space. As an example, 3D Printing is a solid Actionable theme as it is comprised of companies like 3D Systems (and others) for which revenue is 100% (or close) related to the theme.
- Total Addressable Market:** to provide a consistent growth, potential demand for products/services in the theme should be large to ensure ability for the companies to make significant profits on the long run.
- Relevance for Horizon 2030:** as the saying goes, timing is everything! If a theme's strong potential is already priced in or it will take another 20 years to be recognized as a strong potential, the investment now might not be the right time. To assess properly this pillar, one should focus on the financial ratios for the theme as well as popularity (typically tools like Google trends)
- Specialized:** this pillar is not per se contributing to the overall scoring of a theme as a very specialized theme can be useful by providing a diversifying contribution in the portfolio and a more general theme can be played in a more transversal way across various themes. However, it is important to us to assess this characteristic as it plays a role in the portfolio construction.

Extract of our Theme Scoring Table. *For indication only*

Theme	Final Score	Probability to materialize	Actionable	Total Addressable Market (TAM)	Relevance for Horizon 2030	Specialized
Senior World	1.50	●●	●	●●	●	●
AR/VR	2.00	●●	●●	●●	●●	●●
Security	1.25	●●	●	●	●	●
New Food	1.00	●	●	●	●	●●
Mobility	1.75	●●	●	●●	●●	●
Energy Transition	1.50	●●	●	●●	●	●
Hydrogen	1.00	●	●●	●●	●	●●
Market Place Everywhere	1.25	●	●	●●	●	●
Zero World	0.50	●	●	●	●	●●
Transhumanism	0.50	●	●	●●	●●	●
Individualism	1.00	●●	●	●●	●	●●
New Middle Class	1.50	●●	●	●●	●	●

To continue the discussion with us, please contact info@omega-wm.com