



GLOBAL X INSIGHTS

Conversational Alpha: Stories for Long-Term Growth

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There's a huge difference between investing and trading. Investing is about positioning a portfolio to balance current and long-term objectives, while trading attempts to exploit short-term market movements. While some short-term trends are worth trying to take advantage of, our approach to portfolio management prioritizes long-term views while making tactical tilts to position for the next few quarters.

This long-term focus can be challenging in an environment that prioritizes short-term returns but, regardless of the flavor of the month, diversification, blended with a combination of current market trends and future-focused ideas, remains relevant. This compartmentalization can help investors prioritize long-term exposure to areas that are growing in importance.

Key Takeaways

- Relatable stories can help relay the importance of focusing on long-term objectives in client conversations.
- Thematic equity is long-term focused, providing investors with an opportunity to remain invested at the forefront of technological advancement through diversified thematic exposure.
- Targeted exposure to up-and-coming areas should be a dedicated segment of a broader portfolio.

Conversational Alpha® - Relatable Stories

We believe relatable stories can help clients prioritize their long-term objectives, focusing on investment trends that clients can experience the impact of in their day-to-day lives. At Global X, we refer to these relatable stories as Conversational Alpha®.

Disruptive innovations have defined each period throughout history, such as the steam engine, electricity, and automobiles. Then came the internet, smart phones, and social media followed by artificial intelligence (AI). These innovations have shaped society, having a lasting impact on the next generation of technological progress. While the internet was revolutionary in the '90s, it's currently an essential utility. But new innovations have been developed on this foundation, creating a plethora of companies that are defining the investment landscape of today.

Large demographic trends, such as deglobalization or an aging population, can provide a useful starting point for a meaningful and memorable investment discussion. However, taking the conversation a level deeper and discussing key structural themes that benefit from the broader trend can make the concept more relatable for clients. This can assist with conversations around portfolio construction and investments focused on long-term objectives.

Thematic Equity is a Powerful Portfolio Tool

Themes are typically highly relatable concepts. Over the last two years, everyone has been talking about AI. But as an advisor, how easy has it been to relate this theme to your current portfolio positioning? Additionally, as the theme evolves and progresses along the path of adoption and commercialization, are you necessarily still positioned to benefit from it? AI is likely to become a foundational technology that new technologies will be built on, just like the invention of the computer and the internet opened the way for a huge number of new companies and technologies.

In the first two years after OpenAI launched ChatGPT, markets took a very concentrated and mega-cap-oriented approach to accessing this theme. However, while those key companies remain relevant to AI's development, the key beneficiaries have broadened substantially. This exemplifies the benefits of using targeted thematic ETF products for this exposure rather than trying to select an individual company to benefit from a growing trend. Additionally, given that technological innovation happens globally and is impacted by companies across the market cap spectrum, thematic equity is all cap and global by nature. This makes the ETF wrapper a convenient way to access targeted themes.



Although AI has been the most talked about theme during the last two years, investors should think about diversification within their future focused exposure. Our thematic model portfolios include themes that touch different areas of the economy, such as consumers, healthcare, and technology, helping to diversify our thematic exposure.

Core-Satellite Approach: A Dedicated Segment for Long-Term Growth

Currently, we're seeing an unprecedented confluence of transformative technologies. Technological breakthroughs within AI have benefits for themes ranging from robotics to drug discovery. This convergence of themes is not just additive; it's exponential. It creates amplified potential for paradigm-shifting technologies and raises the importance of portfolios including thematic exposure.

A Core-Satellite approach is a useful way to think about this future focused exposure. Thematic equity can be used as a satellite exposure within a diversified portfolio. It's important to establish a framework around the long-term inclusion of thematic equity, setting limits that ensure this exposure can augment the rest of the portfolio without adding meaningfully to risk. We've done extensive analysis into the appropriate levels of thematic equity at different risk profiles. Please refer to our Scaling Thematic analysis for more information.

Innovation Can Help Differentiate Your Portfolios

Markets are constantly evolving. While the companies at the cutting edge of the technological revolution typically comprise a small portion of the market, as adoption rises, these innovative companies have the potential to become a larger part of the broader market or be acquired by more established peers. Therefore, maintaining exposure to a diversified group of the key structural themes currently shaping innovation may benefit investors without requiring them to correctly time their thematic exposure.

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