

Episode Title: Getting personal with thematic investing

Episode Description: We dive into the ways you can incorporate thematic investing into your portfolio. We examine thematic categories, investing strategies, and how you can leverage these investments in your overall financial planning (including retirement).

Transcript:

Alex Lieberman ([00:04](#)):

Hey everyone, I'm Alex Lieberman, co-founder and executive chairman of Morning Brew. This is Season Three of Fresh Invest, your favorite investing podcast sponsored by Fidelity Investments and powered by Morning Brew. This season, we're getting you the answers that can help you navigate market volatility and build financial confidence. Last week, we went through the basics of thematic investing. We covered what it is, why it's growing in popularity, and how to determine if it aligns with your financial goals. Today, we're talking about the ways you can actually incorporate thematic investing into your portfolio. There are many different thematic categories you can invest in like disruption, mega-trends, sustainable investing AKA environmental, social and governance or ESG for short, and for each of these categories, there can be different investing strategies including mutual funds, direct indexing, and more. Josh Krugman, senior vice president of brokerage at Fidelity, is joining us today to dive deeper into these nuances. Together, we'll examine how thematic investing can be leveraged in your overall financial planning. Let's get into it.

([01:11](#)):

Josh, thanks for joining the show.

Josh Krugman ([01:13](#)):

Thanks Alex. Happy to be here.

Alex Lieberman ([01:15](#)):

So let's start with a little bit about you. Tell us about yourself and what you do at Fidelity.

Josh Krugman ([01:20](#)):

Well I've been here at Fidelity for 16 years and I currently oversee our brokerage teams who are focused on the platform and experiences and products that help our customers invest on their own. And that includes our website, mobile app, and education that helps our self-directed investors make better investing decisions.

Alex Lieberman ([01:38](#)):

So a lot of our listeners were given kind of the preamble into thematic investing with last episode of Fresh Invest and I'm sure a lot of them are wondering is now a good time, given current market volatility, is now a good time to pursue thematic investing? What are your thoughts?

Josh Krugman ([01:54](#)):

Yeah, these decisions really depend on each individual investor's situation, but the market volatility we've seen in recent months is something everyone is paying attention to. When it comes to thematic investing, it's not about when you start, but about the type of strategy or values or longterm trends you're hoping to invest in. You got to remember that this is part of your equity portfolio and it's part, needs to be part of an overall plan. We are seeing interest though from a wide range of investors, particularly young investors, as they look for opportunities to connect their investments to their personal interests, beliefs or values, and you can think of it as another tool in the toolbox to help you reach your goals. And as you discussed I think in your last episode, thematic investing is sometimes confused with sector investing, but thematic investing is really different that it cuts across sectors. So you might invest in a vehicle that's focused on disruption or companies that are changing the way things get done in the industry, and that fund or investment might invest in companies across lots of different sectors, like finance, medicine or technology. But the common theme connecting these companies is that they're all disruptive in how they do business and envision the future.

Alex Lieberman ([03:05](#)):

Makes total sense, and I think what a lot of retail investors don't realize is there are a number of ways that you can deploy your capital into thematic investments. So can you explain some of the strategies that investors can use when investing thematically?

Josh Krugman ([03:18](#)):

Yeah. The good news is there's lots of different ways you can do it, including ETFs, mutual funds. These tend to be vehicles that don't require a lot of management on your own or thinking about it on your own because they're managed essentially for you. The other category is direct indexing strategies which allow much more personalization to your specific needs.

Alex Lieberman ([03:42](#)):

So let's focus on direct indexing for a minute. What exactly does that mean? What do retail investors need to understand about it?

Josh Krugman ([03:49](#)):

So at Fidelity, we kind of view direct indexing as another evolution for the investment industry as index investing evolves beyond sort of passive mutual funds and ETFs and towards strategies that support the demand for greater personalization. So direct indexing at its core is directly owning the individual stocks of a particular index or theme. Traditionally it has been a strategy for more wealthy investors and takes the form of a separately managed account because you need a lot of money to spread across a number of stocks of an entire index or thematic model of securities.

([04:25](#)):

However with fractional share trading and commission-free investing, it has enabled us to bring these capabilities to a much broader set of retail investors. By directly owning and investing in the stocks of an underlying index or theme, you can achieve much greater personalization by filtering out companies that don't align to your values or strategies or interests. At Fidelity, we recently launched a new version of this, which is called Fidelity FidFolios.

Alex Lieberman ([04:52](#)):

And so you've now told the listener about the what. What thematic investing is, but more specifically, the different strategies by which you can invest thematically and what direct indexing is. How do we think about the when? So what are the important factors that investors should consider before deciding between these different investing strategies?

Josh Krugman ([05:14](#)):

So there are options for all investors, whether you like to do it yourself or have a manager like Fidelity do it for you. It really comes down to the personal choices and how it fits into your overall financial plan and it could be different for each individual investor.

([05:30](#)):

One important consideration of determining whether you prefer an ETF, mutual fund or direct indexing product to invest thematically is the idea of direct ownership. The thematic models or indexes in a direct indexing product like Fidelity FidFolios means you actually own the specific securities within a chosen theme or an index, while investors in the thematic mutual fund or ETFs invest indirectly in those stocks and securities. That direct ownership can take a little more hands-on management and understanding of what you own.

Alex Lieberman ([06:01](#)):

And how can investors leverage thematic investments in terms of their overall financial planning?

Josh Krugman ([06:06](#)):

So I mentioned before thematic investing is another tool in the toolbox. It all starts with three things, your goals, your risk tolerance, and your time horizon. From there, you can develop a better understanding of what you're trying to accomplish with the money you invest, and the best way to consider allocating it. Starting with a basic diversified portfolio can give you the foundation from which you can explore investing in areas that are a bit more personalized and tailored to you. As long as it's part of an overall plan, you have the freedom to invest in those areas that you want to, personalized to your own experience.

Alex Lieberman ([06:40](#)):

Love it. Now I have a little bit more nuanced of a question around thematic investing and it's because our listeners kind of told us the topics they were most interested in. Before we kicked off this season of Fresh Invest, we had asked members of the Morning Brew community how they felt about the financial topics that we were discussing this season and they would share whether they're bearish or bullish on these topics. One of the topics we brought up was planning for retirement and I'm happy to say 71% of the audience said they're bullish which I would have been scared if that wasn't the case. I would love to get your take on how thematic investing fits into this puzzle piece of retirement planning.

Josh Krugman ([07:21](#)):

So I'm absolutely bullish on planning and having a plan to manage your finances long-term. It's all about finding the approach to investing that you're comfortable with and that makes most sense to you. This is especially true for something like retirement which is typically a longer term goal. Thematic investing kind of fits into an overall strategy and it is the equity portion of your strategy. So personalization is something we're seeing getting greater traction among investors, no matter how they choose to achieve

that aspiration. Investing in a way that aligns with your interests and values can sometimes make people more inclined to stick with it through the inevitable ups and downs of the market.

Alex Lieberman (08:00):

Love it. Josh Krugman, thank you so much for joining the podcast and going deeper in thematic investing.

Josh Krugman (08:06):

Thanks a lot.

Alex Lieberman (08:10):

Thanks for tuning into Fresh Invest today. I hope you have a better understanding of how to incorporate thematic investing into your portfolio and the ways you can leverage these investments. It can be really exciting to find investments that align with your beliefs and then express those beliefs in your portfolio. Before committing to any investing strategy, it's important to pull back the curtain, to understand how a thematic fund works and how it can fit in with your investing plan and long-term goals. Join us next week when we jump out of the thematic investing world and into the crypto community. We'll explore the current state of crypto and introduce some key driving factors that will impact its potential mid to long-term outlook. It's a hot topic for all the cold wallets out there, so stay tuned. I'll see you then.

Alexandra Bass (8:56):

Hey everyone, this is Alexandra Bass from Morning Brew. And as the producer of Fresh Invest, I'm here to let you know that this podcast was created on behalf of Fidelity Investments by the Morning Brew Creative Studio, and does not reflect the opinions or point of view of the Morning Brew editorial team. Sources are provided for informational and reference purposes only. They are not an endorsement of Fidelity Investments or Fidelity Investments' products.

And on their side, Fidelity is the paid sponsor of this podcast, which includes providing Fidelity personnel for interviews and publications with Morning Brew studios on content development. Fidelity and Morning Brew are independent entities. Information presented herein is for discussion and illustrative purposes only and is not a recommendation or an offer or solicitation to buy or sell any securities. The views and opinions expressed by the speaker are his or her own as of the date of the recording and do not necessarily represent the views of Fidelity Investments or its affiliates. Any such views are subject to change at any time based on market or other conditions, and Fidelity disclaims any responsibility to update such views. These views should not be relied on as investment advice and, because investment decisions are based on numerous factors, may not be relied on as an indication of trading intent on behalf of any Fidelity product. Neither Fidelity nor the Fidelity speaker can be held responsible for any direct or incidental loss incurred by applying any of the information offered. Please consult your tax or financial advisor for additional information concerning your specific situation. This podcast is intended for U.S. persons only and it's not a solicitation for any Fidelity product or service.

This podcast is provided for your personal, noncommercial use and may contain copyrighted works of FMR LLC, which are protected by law. You may not reproduce this podcast, in whole or in part, in any form without the permission of FMR LLC. Fidelity and the Fidelity Investments and Pyramid Design Logo are registered service marks of FMR LLC - copyright 2022 FMR LLC. All rights reserved. Past performance is no guarantee of future results. Investing involves risk, including risk of loss.

Fidelity Brokerage Services LLC, Member NYSE, SIPC, 900 Salem Street, Smithfield, RI 02917

1045385.1.0