BEHIND THE MARKETS PODCAST: A DISCUSSION WITH WARREN PIES FROM 3FOURTEEN RESEARCH

Christopher Gannatti – Global Head of Research
11/16/2021

This week, Warren Pies, Founder and Strategist at 3Fourteen Research, joined regular host Jeremy Schwartz, Global CIO at WisdomTree, on the *Behind the Markets* podcast.

Introduction and Background

It was interesting to start by hearing a bit about Warren's background. He started out as an attorney and then transitioned to market research at Ned Davis Research. His focus there was predominantly on commodities and real assets, and he left after Ned Davis Research wanted to stop focusing on commodities coverage. He started 3Fourteen Research about a year ago.

Who Is 3Fourteen Research

3Fourteen takes a more advanced, quantitative approach to building different models. The firm's high level asset allocation view is that the next 25 years in the markets will look very different from the 25 years that we have just experienced. Investors were well served by the 60/40 equities/fixed income approach for the past 25 years—but this may not work as well in the coming period.

What Is the Model Telling Us Today?

Warren discussed one of 3Fourteen's key models, which includes 17 different assets. The drivers of the model include:

1. Trend
2. Correlation
3. Volatility

The current positioning is taking a very clear stance on short duration. One way this can be seen is that the longer-term Treasury bond exposure is only about 1%. Equity exposure is roughly neutral, at about 40%, but within this exposure the model has shifted more toward small caps and the value factor. The main shift was out of bonds and into real assets—notably, real estate, bitcoin and gold are at the highest levels seen in the model since the pandemic began.

Notable Research with Big Implications for Equities vs. Bonds

Warren cited a piece that 3Fourteen put out looking at the relationship in terms of returns for stocks versus bonds. He took the 100 worst days from the last 25 years, based on equity returns, and saw that bond returns were positive on 83 of these days—a great ratio of success as a possible hedge. If one did the same exercise, but looked instead at the 25 years prior to 1998 during the same type of days—the worst 100 for equity returns—bonds only had positive returns on 35 of them.

Two simple variables account for a lot of the movement of stocks and bonds: economic growth and inflation. Over the past 25 years, inflation was largely removed from being a real concern for investors. There was a huge trend toward globalization which led to much lower inflation, particularly in durable goods. Cheaper durable goods prices effectively pulled the [Consumer Price Index]() lower over this time, improving the prospects for bond returns generally.

What Are Some of the Best Hedges if People Are Concerned with Inflation?

Warren thinks that oil will merit special consideration as an inflation hedge in the coming years. He cited how we have seen the "shale revolution" since about 2014, driving prices lower. However, going forward there hasn't been much further capital investment in oil, and yet the demand for oil is expected to keep rising in the coming years. After the supply and demand balance normalizes in the next six to nine months, Warren's view is that the focus will eventually start to recognize that green energy is great, but oil demand shrinking to zero is not in the immediate future, even if the mix of how people get energy is evolving more and more toward cleaner sources.

What about Gold & Crypto?

3Fourteen also looks into at gold and crypto. Toward the end of the discussion, Warren discussed his view that bitcoin has been taking investor fund flows away from gold. Warren believes that bitcoin has a great use case for wealthy individuals stuck in closed economies, who want to take their wealth to countries with strong property rights, like the United States. Bitcoin has been rising, and so has the dollar, and this is one possible explanation, at least in part.

You can listen to the full episode below.

This Stencil app is disabled for this browser.

Developers:

- ES5 builds are disabled **during development** to take advantage of 2x faster build times.

Important Risks Related to this Article

There are risks associated with investing, including the possible loss of principal. Crypto assets, such as bitcoin and ether, are complex, generally exhibit extreme price volatility and unpredictability, and should be viewed as highly speculative assets. Crypto assets are frequently referred to as crypto "currencies," but they typically operate without central authority or banks, are not backed by any government or issuing entity (i.e., no right of recourse), have no government or insurance protections, are not legal tender and have limited or no usability as compared to fiat currencies. Federal, state or foreign governments may restrict the use, transfer, exchange and value of crypto assets, and regulation in the U.S. and worldwide is still developing.

Crypto asset exchanges and/or settlement facilities may stop operating, permanently shut down or experience issues due to security breaches, fraud, insolvency, market manipulation, market surveillance, KYC/AML (know your customer/anti-money laundering) procedures, noncompliance with applicable rules and regulations, technical glitches, hackers, malware or other reasons, which could negatively impact the price of any cryptocurrency traded on such exchanges or reliant on a settlement facility or otherwise may prevent access or use of the crypto asset. Crypto assets can experience unique events, such as forks or airdrops, which can impact the value and functionality of the crypto asset.

Crypto asset transactions are generally irreversible, which means that a crypto asset may be unrecoverable in instances where: (i) it is sent to an incorrect address, (ii) the incorrect amount is sent or (iii) transactions are made fraudulently from an account. A crypto asset may decline in popularity, acceptance or use, thereby impairing its price, and the price of a crypto asset may also be impacted by the transactions of a small number of holders of such crypto asset. Crypto assets may be difficult to value, and valuations, even for the same crypto asset, may differ significantly by pricing source or otherwise be suspect due to market fragmentation, illiquidity, volatility and the potential for manipulation. Crypto assets generally rely on blockchain technology, and blockchain technology is a relatively new and untested technology which operates as a distributed ledger. Blockchain systems could be subject to internet connectivity disruptions, consensus failures or cybersecurity attacks, and the date or time that you initiate a transaction may be different than when it is recorded on the blockchain. Access to a given blockchain requires an individualized key, which, if compromised, could result in loss due to theft, destruction or inaccessibility.

In addition, different crypto assets exhibit different characteristics, use cases and risk profiles. Information provided by WisdomTree regarding digital assets, crypto assets or blockchain networks should not be considered or relied upon as investment or other advice or as a recommendation from WisdomTree, including regarding the use or suitability of any particular digital asset, crypto asset, blockchain network or any particular strategy. WisdomTree is not acting and has not agreed to act in an investment advisory, fiduciary or quasi-fiduciary capacity to any advisor, end client or investor, and has no responsibility in connection therewith, with respect to any digital assets, crypto assets or blockchain networks.

For standardized performance and the most recent month-end performance click here NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

View the online version of this article here.

IMPORTANT INFORMATION

U.S. investors only: Click here to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.

You cannot invest directly in an index.

DEFINITIONS

Correlation : Statistical measure of how two sets of returns move in relation to each other. Correlation coefficients range from -1 to 1. A correlation of 1 means the two subjects of analysis move in lockstep with each other. A correlation of -1 means the two subjects of analysis have moved in exactly the opposite direction.

Volatility : A measure of the dispersion of actual returns around a particular average level. .

Duration : A measure of a bond's sensitivity to changes in interest rates. The weighted average accounts for the various durations of the bonds purchased as well as the proportion of the total government bond portfolio that they make up.

Small caps : new or relatively young companies that typically have a market capitalization between $200 million to $2 billion.

Value : Characterized by lower price levels relative to fundamentals, such as earnings or dividends. Prices are lower because investors are less certain of the performance of these fundamentals in the future. This term is also related to the Value Factor, which associates these stock characteristics with excess returns vs the market over tim.

Bitcoin (the currency) : A digital currency (also called a cryptocurrency) created in 2009, which is operated by a decentralized authority as opposed to a traditional central bank or monetary authority.

Inflation : Characterized by rising price levels.

Consumer Price Index (CPI) : A measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. The CPI is calculated by taking price changes for each item in the predetermined basket of goods and averaging them; the goods are weighted according to their importance. Changes in CPI are used to assess price changes associated with the cost of living.