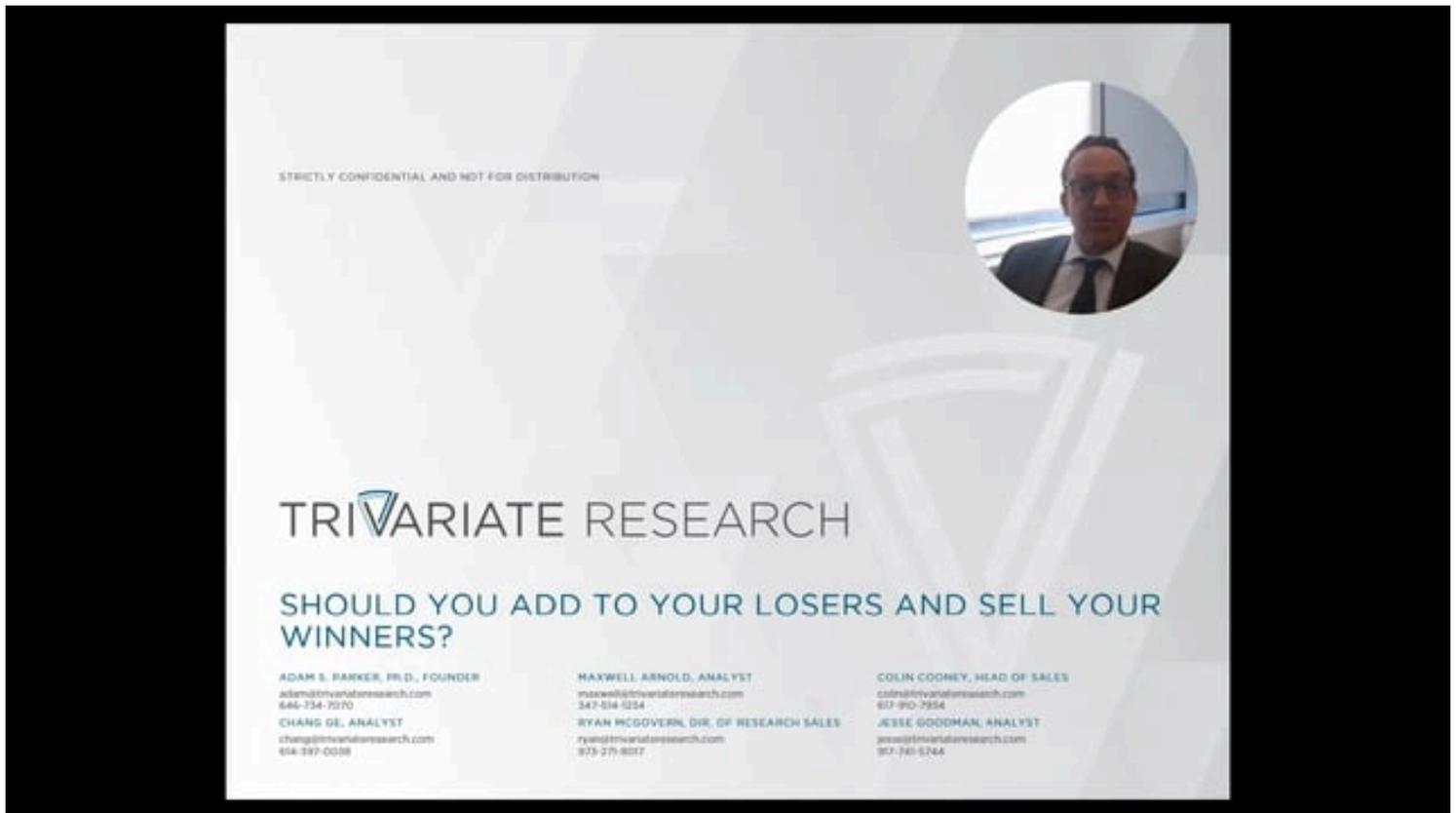


VIDEO - Should You Add to Your Losers and Sell Your Winners?

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Background: In practice, most fundamental PMs naturally follow a contrarian sizing discipline—adding to positions where their conviction remains intact despite recent underperformance and trimming positions after strong gains to manage risk and realize profits. The results of today’s analysis suggest that this behavior added modest value over the long run. However, this approach is not regime-neutral. In periods like the recent market, where momentum is unusually strong and trends persist, this discipline can become a headwind—cutting exposure to the very stocks driving returns while reallocating capital into laggards that continue to underperform. The key implication for portfolio managers is that position sizing decisions embed an implicit factor bet: a consistent “buy low, sell high” approach is effectively long mean reversion and short momentum, and its effectiveness will vary materially depending on regime.

Methodology: We used a path-dependent Monte Carlo back-testing framework to evaluate how different rebalancing rules impact portfolio outcomes across multiple US equity universes, including the Top 500, and Top 1000 Technology portfolios. These simulations are conducted every month since 1999 and for each month, we randomly select 50 stocks from the chosen universe and construct an equal-weight portfolio. The portfolio is then evolved over a two-year horizon using daily returns, with 200 independent random portfolios simulated for each start date to capture dispersion across stock selection. Within

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each simulation, we test three distinct threshold-based position management approaches applied at a daily frequency: (1) a contrarian rebalancing strategy, where positions are trimmed when weights rise above a threshold and added to when weights fall below a threshold (“buy low, sell high”); (2) a buy-and-hold approach, where positions are left to drift with no rebalancing; and (3) a momentum-based rebalancing strategy, where positions are increased as they outperform (weights rise) and reduced as they underperform (weights fall). This setup allows for a direct comparison of how different implicit bets — mean reversion versus momentum versus no intervention — affect portfolio performance across repeated simulations and market environments.

Investment conclusion: Nothing historically mattered that much vs. buy and hold, except for buying smaller positions for crisis recoveries. Because of that, it looks like mean-reversion was better than momentum for position sizing over the long-term. Over the last three years, this appears to have changed – though largely isolated to Technology – where buying winners and selling losers has sustainably worked in the big market upcycle since 2023. Whether that continues remains to be seen, but our main conclusions are:

1) Don't trade too much.

2) If you buy losers, make sure you are confident a market bottom is near and a large recovery is coming.

3) Within Technology, momentum has destroyed mean-reversion as a sizing approach in the big up market since 2023. Knowing when this will end is challenging.

4) If you insist on buying laggards and selling winners, using fundamental overlays can be helpful. Overall, adding to stocks with forecasted revenue growth and gross margin expansion with upward revisions helps, and avoid adding those with weak revenue growth and margin outlooks, with recent downward revisions, also helps. Within Technology, avoid selling those with strong momentum.

Each month since 1999, we randomly selected 50 stocks from the Top 500 by market cap. and assigned them equal starting weights (so 50 2% positions). The portfolio is then updated every trading day for the next two years: weights first drift naturally with daily stock returns, and the sizing rule is then applied. This process is repeated 200 times for each start month to estimate the distribution of outcomes, with no transaction costs or taxes assumed because we assume they are similar for each of the strategies we investigate.

Details on the rules we simulated:

The rule “buy-1.90%-2.00% / sell-2.10%-2.00%” is a standard contrarian rebalancing rule: if a position falls below 1.90%, it is bought back to 2.00%, and if it rises above 2.10%, it is trimmed back to 2.00%. This is meant to be a tightly traded and rebalanced portfolio based on mean-reversion.

By contrast, “buy-2.10%-2.50% / sell-1.90%-1.50%” is momentum-oriented: once a position rises above 2.10%, it is increased further to 2.50%; once it falls below 1.90%, it is cut further to 1.50%. Importantly, the re-trigger or “episode reset” behavior applies only to this one-sided rule: after a stock has been scaled up to 2.50%, it must first fall back below the equal-weight anchor of 2.00% before another scale-up can occur, and after it has been scaled down to 1.50%, it must first rise back above 2.00% before another scale-down can occur.

We show various contrarian and momentum strategies in today's work, including buying stocks that fall to 1.5% positions back up to 2% (and selling 2.5% back down to 2%), and buying 2.25% positions up to 2.5%, and selling 1.75% down to 1.5%, as well as just buy and hold the initial 50 positions for the whole two years.

Don't hesitate to reach out to us if you want more specifics on our approach.

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