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**INVESTORS SHOULD WATCH THEIR WEIGHT IN 2023: ALLAN GRAY**

**Sydney, NSW:** Investors will need to think deeply about risk in 2023 and pay close attention to stock weightings, according to contrarian, long-term fund manager Allan Gray Australia.

The last decade has been relatively easy for investors, with all the major asset classes rising in an era of low interest rates, low inflation and easy money. But Dr Justin Koonin, Investment Analyst at Allan Gray Australia, believes the future is likely to be far more challenging, as rising interest rates start to bite, economic growth slows, and ongoing geopolitical issues create potential for equity investors to be punished.

According to Dr Koonin, risk management will be harder in this environment. "Most investors tend to think about risk in terms of volatility", said Dr Koonin. "But there will always be volatility, that's part and parcel of investing. We instead view risk as the potential for permanent loss of capital.

"Careful stock picking can help mitigate the risk of permanent loss of capital. Outperformance over the long term does not solely depend on the stocks picked but also significantly depends on the weight of the stocks in the portfolio.

"Hit rate – or the number of stocks in a portfolio that outperform – isn't everything. You can outperform with a low hit rate if the upside of the outperforming investment is large, and you can underperform with a high hit rate if you don't allocate enough of your portfolio to those stocks."

Dr Koonin said Allan Gray's method is to weight stocks so that those it thinks have a lower downside risk, both in absolute terms and relative to the potential upside, have a higher weight.

"While using this portfolio construction technique won't eliminate volatility, it should help to reduce the potential for permanent loss of capital. We also make sure we are never overly diversified, as this can dilute returns", said Dr Koonin.

"Investors might consider having a more concentrated portfolio if they want to give themselves the best chance of capital growth over 10 or 20 years.

"In the short term, investors might feel uncomfortable if the market is up 10 per cent and their portfolio is down 10 per cent, but they really need to think about the real risk: permanent loss of capital over the long term. Uncomfortableness might be the price to pay during 2023 for long-term outperformance."

To learn more about how Allan Gray Australia manages its portfolios, you can read the paper written by Dr Koonin, *Weighty Decisions – an overview of portfolio construction*. Please contact Allan Gray on 02 8224 8604 or at [clientservices@allangray.com.au](mailto:clientservices@allangray.com.au) to get your copy.

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## About Allan Gray Australia

The Allan Gray investment philosophy is to take a contrarian approach, apply it consistently and invest for the long term. This approach was started by Dr Allan Gray who founded Allan Gray Ltd in Cape Town in 1973. Allan Gray in Australia and globally are privately owned and share the same investment philosophy. Allan Gray Australia was established in 2005 and launched its flagship Allan Gray Australia Equity Fund in 2006, followed by the Stable Fund in 2011 and the Balanced Fund in 2017. Today Allan Gray Australia manages over \$8 Billion in Funds under Management. For more information, go to [allangray.com.au](http://allangray.com.au)

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