Selling Winners Too Early: A Value Investor's Blind Spot and What We Do About It

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August 2026



Fast Reading:

- Value investors can sell winners too early, mistaking improving sentiment for increased risk and reallocating to stocks that remain cheap but continue to deteriorate.
- The team's "Upside Capture Review" reassesses rising holdings based on thesis strength, downside risk and remaining valuation upside, rather than share-price movement alone.
- The process is designed to let improving businesses become more meaningful return contributors while keeping decisions grounded in fundamentals, valuation and risk.

A core belief of Brown Advisory's Global Value team is that value is, first and foremost, a behavioural phenomenon. Markets are often efficient weighing machines, but extremes in investor psychology can create periods when a company is more likely to be mispriced.

Across the Global Value Select and International Value Select strategies, we seek to capture this "behavioural alpha" by investing in companies where we see evidence of behavioural underpricing. This often reflects some combination of low expectations, loss aversion, and investors becoming too focused on one of several possible futures.

Leaning into these opportunities means accepting the discomfort of being contrarian and unfashionable. With experience, that tends to become instinct.

The contrarian's blind spot

That instinct can create its own challenges. The same mass psychology that causes investors to overlook out-of-favour stocks can also leave them slow to recognise when things are starting to improve. Within this universe, the most attractive investments are often those beginning to recover.

Yet for a practised contrarian, owning a stock that is going up can feel uncomfortable. A rising stock can appear more in favour, more fashionable, and therefore more risky. This can lead value investors to sell winners too early and recycle capital into stocks that still look cheap but are continuing to fall.

The importance of investment process

Many investment processes focus attention primarily on drawdowns, triggering formal reviews after share prices fall. These reviews can be a useful counter to inertia, but they may be less effective for value investors.

Value investors often have a natural bias towards increasing exposure to underperforming holdings, even when the data suggests it may be better to wait, a lesson many investors know as "don't catch the falling knife".

A process that forces a decision at that point may therefore reinforce, rather than challenge, an investor's existing bias.

We have instead introduced what we call the "Upside Capture Review".

The review is triggered when a holding has risen meaningfully from its prior low, often by 30% or more depending on the volatility of the company. We use it to examine three questions:

1. Has the original investment thesis strengthened?
2. Have the potential downside risks changed?
3. Does the company still trade at an attractive discount to our assessment of fair value?

The purpose is not to justify holding every investment that has performed well. It is to ensure that we reassess the position using current information rather than reacting to the share-price movement alone.

Where the evidence is improving, the valuation remains attractive and significant upside potential remains, our working assumption is that we should maintain or add to the position. The burden of proof rests with the case for trimming.

The aim is to give improving businesses the same structured attention as deteriorating ones and help successful investments become more meaningful contributors to client returns, rather than cutting their potential short.

The first review in practice: US managed care

When we launched the Global Value Strategy, the portfolio had approximately 8% exposure to the U.S. managed care sector[1] through deliberately diversified positions across four companies: Centene, Molina, Elevance and UnitedHealth[2].

It's easy to see why this sector attracted contrarians. Regulatory change and post-pandemic normalisation led the industry to underestimate its costs, causing underwriting profitability to fall along with investor expectations.

The sector then rose strongly soon after the strategy's launch, through luck rather than judgement, making it the first candidate for an Upside Capture Review.

We tested whether (i) the improvement reflected a turn in the underwriting cycle, and (ii) whether the companies continued to

offer an attractive discount to fair value relative to their risks. We updated our assumptions and drew on the considerable sector expertise within our wider research team to challenge our thinking.

Based on the information available at the time, we concluded that the sector still offered a compelling discount relative to our assessment of fair value. We also saw growing evidence that the cycle was beginning to turn, which reduced some of the risks we had identified at purchase.

Consistent with our framework, we retained our positions in UnitedHealth and Elevance, and added to Centene and Molina, where we saw greater valuation upside and an improving risk profile.

The outcome of an Upside Capture Review is not predetermined. The process creates a consistent point at which we reassess an investment, recognise our potential biases and decide whether the latest evidence supports holding, adding to or reducing the position. By giving improving businesses the same structured attention as deteriorating ones, the process helps us base decisions on current fundamentals, valuation and risk rather than instinct alone.

Continuous improvement

Our investment philosophy remains grounded in the belief that investor behaviour can create opportunities. Our process is designed to help us apply that philosophy with discipline.

The Upside Capture Reviews is just one of the tools we use to test our decisions and refine our approach. As we gather more evidence, we will continue to assess which tools support better investment decisions and where our process can improve.

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[1] Source: Factset as of the Global Value Select Strategy's inception on 3/31/2026. Portfolio information shown is based on the representative Brown Advisory Global Value Select account. Sectors are based on the Global Industry Classification Standard (GICS®) and "GICS" is a trademark of Standard & Poor's Financial Services LLC and MSCI Inc.

[2]Portfolio holdings represented are current holdings in the Global Value Select Strategy as of 6/30/2026. Portfolio information shown is based on the representative Brown Advisory Global Value Select account. These holdings were selected because the investment team believes they demonstrate the Strategy's investment process and upside capture review. They do not represent all of the securities purchased, sold or recommended for advisory clients.

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Behavioural alpha is the excess investment return generated by mitigating cognitive biases and making disciplined, rational decisions, rather than trying to time the market based on emotion. It shifts the focus from picking the "perfect" stock to maintaining the discipline needed to avoid common financial pitfalls

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