

## Turnover Isn't a Cost – It's an Edge

*The real risk is standing still*

### Key Takeaways

- **Turnover is not inherently a drag** - it's the mechanism that allows a portfolio to adapt as market leadership evolves.
- When driven by a disciplined, systematic process, **turnover functions as risk management** - exiting weakening trends and reallocating to stronger opportunities.
- In markets where information and leadership change continuously, capturing return opportunities **requires ongoing portfolio renewal**, not static positioning.

Portfolio turnover is often framed as a weakness, something to be minimized in the pursuit of discipline, efficiency, or tax awareness. Entire strategies are built and marketed around the virtue of low turnover, as if inactivity itself were a proxy for quality. But this framing deserves scrutiny. In a dynamic, fast-changing market, low turnover can just as easily signal rigidity, complacency, or an unwillingness to confront new information.

At its core, low turnover assumes a level of permanence that markets rarely grant. It implies that today's holdings will continue to justify their place in a portfolio indefinitely, that competitive advantages will persist, that leadership will remain stable, expectations will remain static, and that disruption will be slow or irrelevant. Yet history suggests something different. Regime change is constant throughout history, and periods of transformation, like the current wave driven by artificial intelligence, can rapidly reorder the opportunity set. Strategies that pride themselves on low turnover risk anchoring to yesterday's winners while missing tomorrow's leaders.

Turnover, when driven by a disciplined and systematic process, is not speculation - it functions as risk management. This is not about churning portfolios or trading for activity's sake, which can add cost without adding value. Purposeful turnover, grounded in evidence, signals, and a repeatable framework, is how investors respond to change. It is the mechanism by which weakening trends are exited, exposure to deteriorating conditions is reduced, and the behavioral trap of holding simply out of familiarity is avoided. Just as importantly, turnover allows investors to actively manage risk by taking gains, reassessing positions, and reallocating capital into areas with stronger forward potential. In this context, turnover is not a cost - it is the essence of active decision making.

A portfolio that changes infrequently implicitly assumes perfect foresight, an unrealistic standard in an uncertain world. A portfolio that evolves, by contrast, acknowledges that leadership shifts, information updates, and opportunity is not static. Viewed this way, turnover is not a byproduct to be minimized at all costs; it is a tool to be used with intent. When executed with discipline and purpose, it becomes a source of edge. In markets defined by change, the ability to move deliberately, systematically, and without hesitation is not just advantageous, it is essential.



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