



Rooted in Thought

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Defining “Risk”

“What we got here is failure to communicate.”

– Captain, *Cool Hand Luke*

Language is a funny thing. Two people may ostensibly speak the same language without ever truly understanding one another. Such failures of communication come from the misperception that we apply the same definitions to words. This is as true in the investment profession as anyplace else.

At Banyan, we define risk as the possibility of suffering a permanent loss. Most professional investors define risk differently. Risk, for them, is deviation from the crowd. It is better to be conventionally wrong than different. Avoiding a loss of a client, rather than avoiding a loss of a client’s money, is the objective.

The Sovereign Wealth Fund of Norway, which manages \$2 trillion, recently illustrated this sort of thinking. A recent stress test indicated that an AI correction would impair its equity portfolio by over 50%.¹ Nevertheless, they are not reducing the fund’s AI exposure. Why? As Nicolai Tangen, the Chief Executive of the fund, stated, “We cannot just sell out of the AI companies...We do not have that kind of risk budget.”²

Now, in our view of risk, the possibility of a single event leading to a 50% loss in an equity portfolio would constitute an unbearable risk. Yet, per the words of Norway’s managers, they do not have the “risk budget” to reduce their exposure to a foreseeable and material loss. The fund’s mandate states that its return should not deviate from its benchmark portfolio by more than 1.25%.³ Simply put, they fear being different more than being wrong.

If the fund’s managers reduce Norway’s exposure to AI and the AI sector continues its upward trajectory, then the managers would underperform: a very risky proposition in this framework. However, if there is a correction in the AI sphere and Norway’s funds decline by 50%, then Norway was just subject to a market-wide risk, like everyone else. The managers are likely to keep their jobs.

We view the world differently. A loss of capital is a loss of capital, with or without the crowd. We will not hesitate to be unconventional if needed. Protecting your hard-earned capital, not our ego, is more important to **building permanent wealth**.

Sincerely,

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¹ Bryan, Kenza, “Norway’s \$2tn wealth fund stress tests effects of climate shocks and AI correction,” *Financial Times*, January 29, 2026, available at: <https://www.ft.com/content/a8263c83-cc22-4ac2-9b34-0185d015eab6>.

² Dulaney, Chelsey, “Norway’s Wealth Fund Trims Holdings of Nvidia, Other U.S. Tech Stocks,” *The Wall Street Journal*, January 29, 2026, available at: <https://www.wsj.com/livecoverage/stock-market-today-dow-sp-500-nasdaq-01-29-2026/card/norway-s-sovereign-wealth-fund-trims-some-u-s-tech-stocks-sbcU3CjCwCdVGHcLTIYG>.

³ Norges Bank Investment Management, “Risk Management,” available at: <https://www.nbim.no/en/investments/risk-management/>.