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Abstract

We use industry data to investigate how the crowding of an equity space develops due to the portfolio construction process in the equity asset management sector. We find crowding can be reduced by slightly altering the risk management process. We also find that crowding in the financial system could be lower if the distribution of risk model usage amongst portfolio managers was more diversified.

JEL Classification: G0, G01, G02, G11
Key Words: Risk management, crowding, herding, crowded spaces,copycat trading, quantitative equity portfolio management, optimal portfolios

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