WORLD CUP LESSONS FOR STOCK INVESTORS

July 15th 2018

Irrespective of who was the winner of this year's World Cup, this has been a World Cup of upsets with the rare occurrence of no Argentina, Brazil or Germany in the semi-finals.

It has also been a surprising World Cup from a fan's perspective – it was thought that Russia would be universally inhospitable and tensions with the UK and other governments would see fans attacked by hooligans or unwelcome. From most reports, this has not been the case: it seems to have been a rather enjoyable World Cup!

So what would be some of the lessons I would take from the tournament?

Champion teams are often better than teams of champions. I've written before about the power of team work in investing. Football enables skill to be at the fore but also importantly relies on teamwork for success. That is how you get the results such as Iceland defeating England in Euro 2016 (which was arguably genesis of the renaissance of England for 2018).

One of the telling statistics was that many of the team had played together since they were children. Knowing intimately and trusting fellow players who you have played with most of your life goes a long way towards being a cohesive team. Just look at Croatia with its 4 million people.

On the other hand, consider the demise of Argentina. Despite having one of the greatest ever football players (Lionel Messi) they looked like a rabble most of the tournament before being unceremoniously bundled out. Or look at Brazil, ousted by well-drilled Belgium (another tiny nation).

Likewise, in investing, the team behind a portfolio manager or a trader is often under-appreciated, which is why the failure rate of “stars” transplanted to new roles is very high. There is a move in the industry away from backing star managers to team-based investing.

For the reader who is sitting at home running their own portfolio, my advice would be to join an investor club. I have spoken to the Queensland Investors Club in Brisbane a few times and it is always remarkable to see the breadth of knowledge in the room from ex-engineers to doctors, along with the range of investing styles. Tapping into the power of a group where different views can be expressed is powerful.

LESS CAN BE MORE

One hallmark of the World Cup is the inevitable penalty shootouts in the knock-out rounds. Personally, I think they are a terrible way to decide a winner.

But as someone who loves statistics, penalty shots open a treasure trove of data for data scientists on game theory and optimal decision making under uncertainty. A fascinating study from Hebrew University, looked at “action bias” in goalkeepers. The authors first looked at where the ball was kicked (Figure 1 below).

Figure 1 – Distribution of jumps and kicks

		Jump direction			
		Left	Center	Right	Total
Kick direction	Left	18.9%	0.3%	12.9%	32.2%
	Center	14.3%	3.5%	10.8%	28.7%
	Right	16.1%	2.4%	20.6%	39.2%
	Total	49.3%	6.3%	44.4%	100.0%

Source: MPRA Paper No. 4477, posted 15. August 2007

As can be seen, it's an even spread of outcomes suggesting neither the penalty taker nor the goalkeeper knows in advance. But what is interesting is what are the chances of stopping a kick versus which direction the keeper goes?

Figure 2 – Chances of stopping a penalty kick

		Jump direction			
		Left	Center	Right	Overall
Kick direction	Left	29.6%	0.0%	0.0%	17.4%
	Center	9.8%	60.0%	3.2%	13.4%
	Right	0.0%	0.0%	25.4%	13.4%
	Overall	14.2%	33.3%	12.6%	14.7%

Source: MPRA Paper No. 4477, posted 15. August 2007

We can see that the optimal direction to choose is centre. While it is optimal for goalkeepers to choose to stay in the centre, however, they almost always jump to one of the sides. Only in 6.3 per cent of saves attempted do they stay in the centre. This suggests that goalkeepers might exhibit biased decision making, that is, they feel the need to do something.

If we turn to investing again, one issue is that investors tend to "over-trade" their portfolio whereby they feel the need to react and "do something". This afflicts both individuals and professionals – after all a professional is paid to come to work every day, surely they should do something?

Well, as Peter Lynch remarks: "Far more money has been lost by investors preparing for corrections or trying to anticipate corrections than has been lost in corrections themselves."

Sometimes the hardest – but the safest – thing to do is nothing. So, the next time you see a goalkeeper standing still on his line, remember that sometimes doing less, really can be more.