

What baseball can teach us about investing

By Gary Brooks, CFP®, CSRIC™

Originally written in 2014

Outside of family, the two things that have defined my life more than anything else are baseball and personal finances.

Long before I became a CERTIFIED FINANCIAL PLANNER™, I was a pitcher in college and later a Major League Baseball reporter for several years. Crossing over the two very distinct careers, I have been an official scorer since 2006 for the Triple-A Tacoma Rainiers – the top minor league affiliate of the Seattle Mariners.

At the intersection of these two worlds are many similarities that just might help one define the other. Here are a several thoughts about how baseball is like investing or making financial decisions. (*Length warning: this is more New Yorker essay -- 6,000+ words -- than blog post*).

The Summary Dozen – 12 points for those who prefer Cliff's Notes

1. Probability of outcomes is important – whether it's sacrifice bunts and stolen bases or investment returns and funding financial goals.
2. It takes longer periods of time (at bats or market cycles) to separate skill from luck.
3. A quality process is more important than immediate or short-term outcomes.
4. Being dazzled by past performance clouds present decisions and doesn't guarantee future outcomes.
5. Use specialists where they add the most value.
6. Paying attention only to the moving ball is equivalent to making investment decisions based only on recent performance. It misses many important elements that define why things are happening on the field and markets.
7. Baseball scouts are to baseball fans as investment managers are to average investors. These insiders make decisions informed by way more advanced data and resources than most people. That still doesn't make them foolproof.
8. Although sometimes difficult, it's beneficial to be concerned only about things that you can control.
9. The best teams and investment plans have a documented philosophy or approach to evaluating present conditions while building for the future.
10. Facts and data are only facts and data if they support the views of those they are presented to. Otherwise, they are biased opinions. The same information can be interpreted very differently by two people.

11. Most mutual fund managers are the equivalent of baseball card commons.
12. Fantasy baseball drafts are an example of growth vs. value investing. It's easy to overspend on growth and overlook a good value.

Now on with the show ...

Tony Gwynn and Understanding Probability

When Hall of Fame outfielder Tony Gwynn died in June 2014, I thought of Strat-O-Matic Baseball. Strat-O-Matic is a game where roles of dice determine outcomes documented on each player's card. The player cards are updated each season. For decades, I've had the 1983 Strat-O-Matic season in my closet. This was Tony Gwynn's rookie season.

I pulled out his card the day of his death and was reminded about how probabilities and luck in Strat-O-Matic have a lot of crossover to investing. In Strat-O-Matic you manage a team through a game by rolling dice and consulting the player card for the outcome based on probabilities derived from actual past performance of the player. Tony Gwynn over the course of his career would have a lot more hits on his card than the average player – but not much power. Notice there are no home run results on Gwynn's 1983 card.

There is certainly luck involved in any single roll of the dice but if you play long enough, probabilities should win out. Just as with coin flipping, you could get heads the first 10 times in a row but if you flip it 1,000 times you'll be much more likely to end up with close to 500 each.

A friend had the 1982 Strat-O-Matic set. We often played All-Star Games pulling our favorite players together. We attempted to build All-Star teams of specialists each filling a role to build a complete team. You wanted a good leadoff hitter who could steal bases, middle of the lineup power but not players who grounded into too many double plays, etc. With the right players in the lineup you should win more than you lose over the course of a season.

Since the 1980s, baseball has evolved even further into a game of specialists filling specific roles. You can't put nine first baseman on the field and expect positive results over the long run. And you need to use specialists in certain positions more than others. Pitchers, catcher and shortstop have critically specific skill sets.

Investment management is similar in many regards. You use specialists where they add the most value. A balanced investment approach – one that considers the broad universe

TONY GWYNN		
	rightfield-2 leftfield-2 centerfield-3	stealing-8 running 1-13
SAN DIEGO PADRES		
1	2	3
2- popout (1b) plus injury	2- lineout (1b) into as many outs as possible	2- lineout (2b) 3- groundball (2b) A
3- popout (2b)	3- flyball (rf) B	4- TRIPLE
4- popout (1b)	4- groundball (p) A	1-4
5- groundball (2b) A++	5- WALK	DOUBLE
6- popout (2b)	6- flyball (rf) B	5-20
7- SINGLE**	7- groundball (1b) A	1-4
8- SINGLE*	8- groundball (ss) A	SINGLE**
1-2 lineout (2b)	9- flyball (cf) B	5-20
3-20	10- groundball (1b) A	6- SINGLE
9- groundball (3b) A	11- groundball (2b) A++	7- SINGLE
10- lineout (1b)	12- foulout (c)	8- SINGLE**
11- lineout (2b)		9- SINGLE**
12- popout (2b)		10- SINGLE*
		11- groundball (3b) B
		12- popout (1b)
1983 BATTING RECORD		
AT BATS	DOUBLES	TRIPLES
304	12	2
AVERAGE	WALKS	HOMERUNS
.309	23	1
	STRIKEOUTS	
	21	

of return-seeking opportunities and risk management – requires a diverse mix of specialists to play specific roles in the portfolio.

And there is absolutely a mix of luck vs. skill that can be hard to evaluate with investment managers. Sometimes, a single lucky event can be misinterpreted as skill and can be so influential in an investment manager's success that a single good idea impacts the stated performance of the manager for years to come. But the probability of the investment manager being able to identify these big winners and implement well-timed entry and exit points in these positions is not high.

(For more on the difference between skill and luck as it relates to sports and investing, I recommend that you read The Success Equation by Michael Mauboussin.)

Probabilities of outcomes have become much more prominent in baseball analysis over the past several years due to powerful and swift databases crunching numbers. An example: How does the probability of scoring a run change from having no outs and a runner on first base compared to one out and a runner on second base? This would be a key consideration of a manager who is deciding whether or not to sacrifice bunt.* Of course, the game situation influences the decision. Who is at bat? What is their history vs. the pitcher? Could the runner score from second on a single? Should the manager pinch hit with a batter better suited to the desired outcome of the moment?

**According to Tom Tango's run expectancy matrix, from 1993-2010 there was a .441 chance that a runner at first and no outs would produce a run during the inning and a .418 chance that a runner on second and one out would produce a run. Maybe the sacrifice bunt is overused, unless it is to move runners from 2nd to 3rd base where the chance of scoring improves by giving up an out to advance the runner.*

My partners and I rely on probabilities of outcomes when creating long-term financial planning and asset growth projections. We use a program called Money Guide Pro – the Strat-O-Matic of financial planning – to model how well current assets, future income streams (i.e. Social Security) and expected investment returns can be expected to satisfy the client's stated goals for retirement income, college savings, travel, health care and so on.

The program's simulations demonstrate how probable it is that under the assumptions in the plan (annual savings, life expectancy, taxes, inflation, etc.) the goals will be funded for the client.

We're comfortable if the goals are funded with a 70-80% probability. There's no need to have 100% probability of success because only the worst possible scenario could cause shortfall in funding the goals. This would be the sort of extremely low probability that isn't worth planning for.

RICKEY HENDERSON leftfield-1 centerfield-2 stealing-AAA running 1-17		
OAKLAND A'S		
1	2	3
2- groundball (2b) B	2- flyball (rf) B	2- groundball (3b) B
3- groundball (p) B	3- groundball (3b) A	3- groundball (ss) A++
4- groundball (3b) B	4- WALK	4- groundball (ss) A
5- SINGLE* 1-14	5- flyball (cf) B	5- WALK (ss) A
6- groundball (ss) A	6- DOUBLE** 1-6	6- strikeout 7- WALK
7- flyball (lf) B	7- SINGLE 7-20	7- WALK 8- WALK
8- strikeout 9- strikeout	8- DOUBLE** 1-6	8- WALK 9- WALK
9- groundball (3b) B	9- TRIPLE 1-9	9- WALK 10- WALK
10- groundball (3b) A	10- HOMERUN 1-6	10- WALK 11- groundball (ss) A++
11- groundball (p) B	11- DOUBLE 7-20	11- groundball (ss) A++
12- groundball (p) B plus injury	12- groundball (3b) A	12- lineout (3b) into as many outs as possible
1983 BATTING RECORD		
AT BATS	DOUBLES	TRIPLES
513	25	7
AVERAGE	WALKS	HOMERUNS
.292	103	9
	STRIKEOUTS	
	80	

We know that unexpected, random outcomes will occur along the way. Once in a while, even Rickey Henderson would get caught stealing (although in Strat-O-Matic it would require flipping an 18, 19, or 20 card – a 3 in 20 chance – for the all-time stolen base leader to be thrown out).

Probabilities of some outcomes are much clearer than others. The coin flip is always 50-50. But especially in the investment world, there is always an element of uncertainty that defines the relationship between risk and reward. Probabilities only define the most likely base case. There are alternative outcomes, sometimes

with wide-ranging results.

Even if we could accurately gauge probability of investment outcomes, making consistently optimal decisions and having them work out that way will not happen every time. There are many varied factors and uncertainties involved in money management – not to mention the psychological aspects of money and life goals. These factors are fluid and can disrupt the probabilities. Retire a year earlier and the probability of funding retirement income changes. Increase or decrease the required living expenses and the probability moves again.

The challenge in financial planning and investment management is that we can optimize for past results and probabilities very easily and still not have much control over future outcomes. This is especially true when we move beyond numbers in spreadsheets and consider that circumstances and goals change as people transition through phases of life.

Takeaway: Understand probabilities, don't expect results to follow them exactly

Statistical Analysis

Strat-O-Matic could be played in a basic format but also had options for using advanced rules and statistics. This was decades before SABRmetrics – deep analytics from Society of American Baseball Research members – swept through baseball delivering more insightful ways to evaluate a player's performance and tendencies in certain situations.

Baseball is the most statistically driven and scrutinized sport and we can now digest piles of data about each game. MLB Advanced Media tracks not only the outcome of each play but the actual path of movement of players, velocity and trajectory of pitches and batted balls, an astounding amount of arcane data.

All of this information changes how players are evaluated, salaries are allocated, and teams are built through draft and development, trades or free agent acquisitions.

There is historical comparison, peer comparison, situational statistics and more. It's hard to fathom that the information that you used to be able to access in the eight-pound baseball encyclopedia is now a limited set of reference points. Now, sites like baseball-reference.com, fangraphs.com, brooksbaseball.net provide details that a decade ago nobody even thought to ask about.

Investing offers similar weight of data to evaluate company stocks, bonds, economic conditions, investor psychology and so on.

It is one thing to evaluate past returns and current value based on something fairly simple like the price/earnings ratio of a stock. But investment evaluation goes much deeper with formulas, algorithms, and even a measure called batting average that evaluates how an investment manager's results compare to an unmanaged benchmark.

Unfortunately, many humans aren't very good at interpreting data and understanding probability. Most of us rely on computer programs to direct us toward conclusions. And most of those conclusions, supported by reams of data, are still informed only by the past. They aren't very representative of future reality. We can build investment portfolios that optimize for certain past conditions but it's impossible to be perfectly positioned for what is to come: Will company earnings continue to grow and justify higher stock prices? How far and how fast will interest rates climb – if they ever begin to? Will the global economy be dragged down by Eurozone stagnation or will that be offset by emerging market demographic trends? We can speculate about the future but only make decisions based on past precedent.

Past performance doesn't stop baseball general managers from offering obscenely lucrative long-term contracts to players on the downslope of their careers so it shouldn't be too surprising that investors steer a lot of money based on past performance of money managers.

Takeaway: Advancements in data management have taken performance evaluation and attribution to a new level of understanding?

Building a Team, or an Investment Portfolio

Baseball is broken into three disciplines – pitching, hitting, and defense. Good pitching can dominate good hitting but even the best pitchers have moments of vulnerability when they have to rely on their defense and hope their team's offense can support them.

Every team needs a mix of power hitters and good on-base percentage batters. Home runs are welcome and thrill the fans but they are fleeting – a lot like the performance of stocks. Pitching and defense make it easier to win championships. And you have park

factors to consider. Stadiums vary in favor of pitchers (San Diego's Petco Park, Seattle's Safeco Field) or hitters (Great American Ballpark in Cincinnati, Globe Life Park in Texas).

To build a winning team you have to find the right mix of talent, placed in roles that make each individual more likely to succeed, and have prospects emerge alongside stars who continue to set a lofty standard.

There is a mix of art and science in building ball clubs, just the way there is in managing the right mix of investments – your asset allocation. How you weight stocks vs. bonds/cash, international vs. U.S., growth companies vs. value companies, long-maturity bonds vs. short maturities, and so on is very important to your investment outcome.

And all the work you put into building the right team, one with a higher probability of success than others – is still impacted by the influence of luck. In any endeavor where luck is involved, you have to trust in the process and its likelihood of success over time more so than the outcome of a single game, or certainly a single inning.

Sometimes, a good result will come from a bad process (luck). For example, a batter is jammed by a quality pitch and breaks his bat, only to have the ball fall between fielders and drive in a game-winning run. Put another way, a good process can generate a bad result. The pitcher did everything right but it didn't assure success.

Over time (adding up more investment occurrences or baseball at bats/pitches) a good process should yield a more favorable outcome and outweigh the occasional occurrence of luck. But there's no accounting for when the luck will occur. Baseball player performance can run in hot and cold streaks. Investment markets can defy logic in both strong rising situations and crisis, thus the saying "markets can stay irrational longer than you can remain solvent."

Regardless of the quality of process in building a baseball team, the worst team and the best team are each going to lose about 60 games and win 60 games on the 162-game schedule. As former Los Angeles Dodgers manager Tommy Lasorda used to say, it's what you do with the other 42 games that separates playoff teams and cellar-dwellers.



Lasorda, 2001 All-Star Game
V.J. Lovero/SI

Good teams will lose to bad teams several times a year. Good investment managers will lose some they thought they should win. They may buy at a seemingly good price when growth factors look strong and a variety of other compelling reasons are present but the investment just doesn't work out. The investment is not in favor of the market for whatever reason. On the flip side, some highly speculative, fundamentally unattractive investments will catch a spark of momentum and turn into big winners.

Because of the uncertain outcome of any given day's game, baseball requires a long season to define the best teams. What appears to be true part-way – even most of the way – through the season, can change relatively swiftly. See the 1995 California Angels, 1964 Philadelphia Phillies, etc. Collapse of even a sure thing is possible, even if not probable. The baseball season is a marathon, not a sprint.

Investment choices should be the same. Most people are investing for a very long time horizon. The outcome tomorrow or even next quarter won't have much influence on the longer-term. There are many decisions to make along the way that influence outcomes and potentially change the trajectory of your financial plan. You don't need to overreact to short-term situations but you need to understand when an opportunity presents itself or when to protect against a specific risk you face. You need to recognize and adapt to longer-term game changers without responding with fast-twitch reactions to short-term distractions or the noise of the news.

Takeaway: A sound process will outweigh luck over time, but may not be helpful during any individual event?

An Insider's Eye for the Game

Most people at the ballpark are fairly casual observers who watch the ball move as they carry on a conversation or enjoy their beer and ballpark frank. As with other sports, there is activity critical to the outcome of every game that takes place away from the moving ball.

Sometimes, from pitch to pitch there are decisions made, signals sent and minor tweaks applied by batter, pitchers, fielders, and the manager and his staff. If base runners are on, the batter may receive a new command via hand signals from the third base coach who is acting as relay-man from the manager in the dugout. Squatting behind home plate, the catcher signals the desired next pitch type and location, taking in all information available about the situation, the batter's strengths and weaknesses, the pitcher's command of his pitch location that game. The players in the field may make a small shift in their positioning depending on the type of pitch coming.

Understanding all the intricacies can engage people in an otherwise slow game – although it is sometimes still too slow even for those who are engaged. In my role as an official scorer, all of these things are important to understand in case the next thrown or batted ball leads to a scoring decision that has to acknowledge whether a play should have been made routinely, or required extraordinary effort, given the situation.

If you miss these finer points, it's the equivalent of evaluating, buying and selling investments based only on recent performance (only watching the ball move). There is a lot more to the story. Scouts, media and the insiders at the ballpark have access to resources (advanced stat packages, game notes, their experience seeing

hundreds/thousands of games and players). These resources help them evaluate and interpret each player's performance, core talents and future prospects.

Professional evaluation of investments is similar. A sophisticated approach looks beyond the year-to-date leaders to understand why they lead and whether the approach that created good recent performance can be reasonably expected to continue to produce in the future.

Evaluating a mutual fund manager, for example, requires understanding of the manager's investment philosophy (quantitative, qualitative, contrarian, top-down, bottom-up, etc.), the market segment they emphasize, performance relative to comparative benchmarks, experience of the manager and his/her team, investment decisions at past peaks and valleys, costs of the fund and perhaps most importantly – risk taken to produce eye-catching results. Market-leading performance is usually achieved alongside more risk taken by the manager. For those managers who do achieve market leading performance, it's necessary to come back to the identification of skill vs. luck, trying to separate the two.

Often, identifying investment managers who may add long-term value for their shareholders, can be a bit like trying to identify which player will advance beyond Triple-A and establish themselves as major league talent, rather than “4-A” players that reach the majors but don't have what it takes to stay.

Baseball scouts are paid to make this assessment. They make valuable contributions to a team's future success. (The scouts receive World Series rings also.) But like investing, it's not an absolute business. Player evaluation often requires a lot of relative comparison.

Tangent alert

In my early years as an official scorer, the Tacoma Rainiers had two good outfielders with tools that projected major league ability – Adam Jones and Wladimir Balentien. Seattle Mariners GM Bill Bavasi was compelled to add a starting pitcher, assumed to be the missing link to get the team back to the postseason. Jones was the most highly regarded prospect. He had been a first-round draft pick out of high school in San Diego whereas Balentien had worked his way through the organization after signing as a 16-year-old out of Curacao.

The Baltimore Orioles preferred Jones and minor league pitcher Chris Tillman (along with three others) in exchange for left-handed pitcher Erik Bedard. The Mariners certainly knew it was a high price given the projected talents of minor league prospects they gave up. But they also likely felt that they could afford to deal from strength and give up Jones while they still had Balentien as a strong outfield prospect. Balentien's Tacoma performance had been equal to Jones's.

2007 Tacoma Rainiers	Avg.	HR	RBI	SB	K	OF assists
Adam Jones	.314	25	84	8	106	12
W. Balentien	.291	24	84	15	105	15

Of course, Jones became a major league All-Star for Baltimore. Bedard, though talented, was essentially a bust. And Balentien's career fizzled. He made it to the majors with Seattle and Cincinnati hitting 15 home runs in 511 at bats, before going to Japan and breaking Sadaharu Oh's single-season home record with 60 in 2013.

It can be similarly difficult to choose between two (or 1,000) mutual funds in any category. Don't fret, though, the choice between fund A and fund Q is usually less important than decisions about your higher level of asset allocation. Your weight of stocks vs. bonds, U.S. vs. international, etc. will usually drive overall performance outcomes more so than any underlying investment.

Takeaway: There are layers of depth beyond a surface observation of baseball or investment performance?

Analyze, Adapt, Re-Evaluate the Situation

A batter who stays in the lineup for a full season will dig into the batter's box close to 700 times from the first week of April through the last week of September. They face different pitchers in different situations four times a game. Batters continuously try to figure out a pitcher's tendencies. What type of pitch do they like to throw when the count is in their favor or not? Do they start each at bat with the same pitch (fastball vs. curve, etc.)? Do they like to work the inside or outside part of the strike zone? Pitchers think similarly. How has this guy fared against me in the past? Does he swing at the first pitch often? Does he like to pull the ball or hit it to the opposite field? Will his approach be different this time than it was his last at bat? There are dozens of micro games within the game, from one pitch to the next.

An investor trying to maintain wealth or grow it also needs to continually re-evaluate the situation – though less frequently than a ballplayer might. What is my current asset allocation compared to my target for the risk/reward tradeoff I'm willing to make? How will investment opportunities change over time? Is there enough expected return to compensate for taking risk? How do interest rates impact stocks, and bonds? Are international investments helpful additions to a portfolio? How much can I withdraw from this account over time to supplement my retirement income?

Each of these questions deals with aspects of money management that have some cyclical variability. Things change over time, sometimes overextending their progress in one direction before changing again. Investments and baseball players are streaky and volatile. Home run kings may hit 12 homers one month and three the next. Even the

league batting champion will have a 0-for-20 stretch during the season. Baseball, more than any other sport, demands players to tolerate failure, to adapt to adverse circumstances. The best batters fail 70% of the time. As of this writing, only eight players in the National League had batting averages above .300.

Investing can be similar. Nobody bats 1.000 where every investment is a winner. Some very good investors can be out of favor with current market trends. Even Warren Buffett has been accused of losing his touch from time to time. For every 10 companies that even a good stock picker chooses, one will generate an exceptional return, three or four will perform pretty close to the broad market itself, and the other five or six may lag. If the one great investment outweighs the five or six that don't work out, it's a good result. Get two exceptional picks out of 10 and investors will seek you out and hand you money to invest even without you asking for it.

But the market cycle and investment opportunities change. The money managers have to either adapt to it or trust that their process is strong enough that they may trail the market for a period but over time they will win the "loser's game."

The best way to deal with the variable nature of investment outcomes from quarter-to-quarter, year-to-year is to follow a documented investment strategy that is specifically aligned with your goals. A written investment policy statement should identify your objective and your target weights for stocks vs. bonds, international vs. U.S., reflect your tolerance for market fluctuations and define how you will navigate the portfolio over time with rebalancing and periodic re-assessment of risk vs. return.

In their own way, baseball teams apply similar stated policies and organizational philosophies that they teach from rookie ball all the way through their minor league system to the major leagues. Teams have documented approaches for batting philosophy, handling of pitchers, payroll management, and so on.

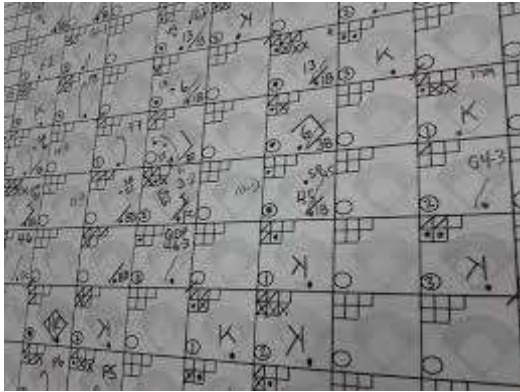
Takeway: There is no such thing as an "all things equal" or constant environment. The situation changes continually and you need to re-evaluate to determine how to what level you need to adapt your plans or expectations.

Interpreting Who Gets Credit or Blame

Both baseball and investing have rules and guidelines that help explain and interpret the activity on the field or in the market. But occasionally, even 100+ years of expanding rules and precedent don't cover what actually happens on the field or in the market.

Baseball is somewhat unlike other sports in that you could watch 100 games but in the 101st you may see something you've never seen before. I've seen hundreds of games as a writer and official scorer, professionally paying attention so to speak, and I still occasionally witness odd circumstances that I haven't seen before.

The Major League Baseball rulebook has a section for official scorers. It's a 32-page mix of nightly occurrences and some rarely-used, esoteric application of scoring decisions. It doesn't cover everything. Sometimes, the actual events on the field are left open for interpretation as to how they should be officially recorded by the scorer.



Sometimes, different people have different interpretations of the same information or activity. This is common in economics and investments as well. Two people evaluate the same data and come to different conclusions. Usually this is because of a variety of biases that influence our thinking and are hard to separate ourselves from. In either baseball or investing, it is hard to overcome psychological biases with data and facts.

Occasionally, a manager will ask for clarification of my ruling as the official scorer. Sometimes they don't ask for clarity, they just tell me I'm wrong. I listen to their viewpoint – which most of the time is understood in advance of the conversation. I'm not opposed to changing a scoring decision given a rational discussion of the situation. Usually, in an attempt to be diplomatic, I tell them that I understand their position but that before I reverse a scoring decision, I want to make sure the other team sees it the same way. They often do not. When one manager is trying to protect his pitcher by having a hit reversed to an error that will make a subsequent run unearned instead of earned, the other manager is trying to protect his player, suggesting he is worthy of a base hit, especially if that hit came with an RBI that would be lost if the play is ruled an error.

Sometimes, both sides agree that a scoring decision should be changed, or even left as is after discussion, but it's often open for interpretation. It's not always clear cut whether a batter deserves credit for a hit or a fielder should be charged with an error. The line between routine play and one that requires exceptional effort is thinner than you might think.

Like investing or financial planning, you make the best decision given the circumstances and the information available and you move forward doing your best to understand the landscape and how to handle when it shifts.

Takeaway: Even seemingly undebatable information can be interpreted in different ways due to our biases and how we apply the information to any given situation.

Cardboard Gods and Mutual Fund Managers

Along with playing Strat-O-Matic, I collected baseball cards, most heavily through the 1980s. Collecting had become fairly serious business by then. The days of putting cards in the spokes of your bicycle to make it sound like a more powerful machine had passed.



We sorted our cards identifying the commons (90% of ball players), the semi-stars, the “rated rookie” prospects and the hall of fame caliber players. Speculative hopes for rookies to eventually turn into hall of famers meant you hoarded any cards of young prospects who looked like they could be stars. But for every Ken Griffey Jr. (1989 Upper Deck rookie card), there was a Gregg Jefferies (who had a nice career but never reached the hype of his two-time minor league player of the year pedigree).

Once in a while, players moved up in status rapidly and then crashed back toward common territory ... Mark Fidrych, Joe Charboneau, et al. Others just keep plugging away with longevity turning good but not consistently exceptional year-to-year numbers into a powerful collection of career numbers (i.e. Don Sutton, Paul Molitor).

This same phenomenon happens with mutual fund managers. Some make a career out of a few good ideas that made a lot of money and they survive off of that “career year.” They attract more and more money to invest under greater pressure. The investment landscape changes. It rarely works out where they demonstrate persistent performance that beats their peers or passive benchmarks year after year.

Therefore 90% of mutual fund managers are equivalent to the baseball card commons*. Increasingly, very few are truly worth the extra money you pay them to try to outperform the basic average returns the broad market provides. But there are some, with a well-conceived investment process, that may not always be in favor with markets but more often than not, build wealth for their investors.

**As it turns out, the collection of baseball cards – while key in learning the game and the players – is not a good investment strategy. Vintage cards (pre-1980) that are in mint condition still have some value, although it is far below the peak. But in the 1980s, the number of baseball card manufacturers multiplied and they began to turn out immense production runs, such that the market is flooded with cards. Aside from some rookie cards for Hall of Fame players, most of the cards produced over the past few decades carry almost no value. I recently thinned out my card collection and took 600 cards of MVPs, Cy Young Award winners, multiple-time All-Stars and Hall of Fame players to my local card shop. They were all from 1982-1992. I understand the economics. They need to offer much less than they sell cards for in order to stay in business, let alone make any profit. I was hopeful that I could get 10 cents*

per card on average, knowing that many of the cards list in price guides and on eBay for many times that. They offered me \$6 – .01 cent per card. The protective sleeves that they were in cost more than that. Effectively, the cards were worth nothing.

I got some entertainment value out of them and following the game and the players eventually led to me becoming a writer, which took me to the World Series and All-Star Games. I've been in the clubhouse at Yankee Stadium when the sprayed champagne is soaking the room. I've interviewed Hall of Famers. Even if only a couple hundred cards that I own have any real value, all those quarters I paid for a pack of cards were worthwhile. Along the way my focus changed and I crossed the bridge to personal financial planning, adapting my skills and interest to fit a changing situation.

Takeaway: Truly good mutual fund managers are as rare as valuable baseball cards.

Fantasy Baseball – Another Growth vs. Value Marketplace

Shortly after I began working at the Tacoma News Tribune (TNT) I was recruited into the fantasy baseball league that was comprised mostly of TNT sports staff and a few others.

In the fantasy baseball format, players are drafted, traded, or acquired as free agents. We track statistics in five hitting and five pitching categories. The best collective stats win the league.

Evaluating and managing baseball players in a fantasy league is a lot like distinguishing between growth and value stocks. Growth stocks are expected to have breakout futures. Their earnings should grow at a faster rate than the broad market. Their past history of performance, dividend payments, etc. is not as important as their future innovation and ability to dominate an industry. Value stocks generally have a deeper history. Some a blue-chip companies have matured beyond their rapid growth period and settled into a more steady pattern of earnings growth, dividend payments and other factors of value. Some companies would not carry the steady, blue-chip label but fit as value stocks. They become value stocks because they have fallen out of favor with the market and investors' perceptions of their future. Some have their stock price beaten down beyond justification and have the potential to be a great investment even if they never again become a great company simply because their share price is less than the company is worth. Remember that there is a difference between a good stock and a good company. A mediocre company trading at a very attractive sale price may be a better investment than a good company trading for a premium. At least until the point that the market realizes the mispricing of the stock and it returns to fair value, then it is likely no better future investment than paying a premium for a good company.

The characteristics and value of a stock are very similar to a baseball player's fantasy league character and value. It's tempting to reach for a potentially special player, drafting higher than is likely justifiable or giving up too much in trade to acquire. But if that player turns out to be Mike Trout, the speculative reach will have been well worth it.

Every fantasy team GM tries to sneak growth-oriented players, hot rookies or prospects who haven't even played in the major yet, onto their roster before every other team.

While these players occasionally work out, the years that we won the league championship were because of unexpectedly strong performance from players taken later in the draft. These are the equivalent of good value picks by investment managers. Buy the unloved if you think it/they have a reasonable chance of recovering past glory.

When you take R.A. Dickey 200 players into the draft and he goes on to win 20 games, that's a great value pick. Or when Carlos Beltran's injuries cause people to pass on him and he returns to All-Star form in 2012, it usually has more impact on success than reaching for a potential breakout player in the first few rounds of the draft.

As with stocks, some players are growth performers for the first several years of their career and then become value picks. This is equivalent to Microsoft changing its character over time. It became impossible for Microsoft to grow at the same rate so it began paying its shareholders back with dividends instead of reinvesting all company profits back in research, development and acquisitions to grow the company.

Growth investing has its rewards, but comes with more volatility. A team of all growth players or growth assets may have higher highs and lower lows than more of a value-oriented approach. In many cases, it helps to buy with a margin of safety, a buffer so that even if the investment doesn't rebound, you can't lose much money on it. If purchased at a good price with a margin of safety, you don't need many winners to equate to a good track record.

It's certainly possible, however, to fall in love with your winners. You become willing to overpay for the past with hope for the future when the probability of continued exceptional outcomes is much less likely. It applies to stocks just as well as ballplayers.

Takeaway: Growth and value both have their merits. All things in moderation makes for good advice for investing and fantasy ball.

You made it to the end of the 6,000-word journey. Thanks for reading. Some of these comparisons may be a stretch but hopefully they help you understand baseball and/or investing from a new perspective.

I look forward to hearing your questions or additional ideas that crossover between baseball and personal finances.