

# Why your investment portfolio is like a baseball team and how knowing that can make you a better investor



**TED RECHTSHAFFEN** | September 9, 2016 3:41 PM ET  
[More from Ted Rechtshaffen](#)



On a typical Tuesday night, listening to the call-in show after a Blue Jays loss, you would think the team was a hopeless disaster. "The manager doesn't know how to manage a pitching staff," someone will say. "Player A (an All Star over the past few years) is the worst. He can't hit anything,"

an angry fan will add. "We should try to trade Player A and get Player B (someone who is playing great the past couple of months)."

The amazing thing is that, even if your team is in first place, it only takes a loss or two to inspire these kinds of comments. Of course, if the Blue Jays had just won the game, many of the comments would be reversed - praising Player A's skills or the manager's decisions. Fans can sometimes have a short-term memory.

Of course, so can investors.

Let's look at an investment portfolio that has been a top-quartile performer the past two years (like the Blue Jays), but has had two stocks perform very poorly of late, resulting in the entire portfolio having a poor quarter. Some investors' thoughts may head towards: "The portfolio manager doesn't know how to manage stocks in this industry." "That stock is the worst. It only goes down." "We should sell that stock and buy a winner." Sound familiar?

It has often been said that even great investment managers are wrong 40 per cent of the time. Interestingly enough, over the past 50 years, the World Series champions have lost 41 per cent of all the games they played. Emotional responses and a love for statistics aside, it turns out there are quite a few other similarities between baseball and investment portfolios.

A great baseball team will ideally have strong pitching, powerful hitting, speed, solid defence and a winning culture in the clubhouse. Unfortunately, teams rarely have all of those things at once. Sometimes there are role players like the back-up catcher who is the worst player on the team, but can be very important when the starting catcher needs a break or goes down with an injury; some players are good hitters and poor defenders; some pitchers may be very good for a period of time, but burn out after a few months. The key to a great team is having all of the pieces, which, even if they don't all work perfectly, can do enough to beat the other team about six out of 10 times. If the team is all power and no defence, or all great starting pitching and very poor relief pitching, it will burn out over the course of a long season.

Likewise, a great investment portfolio will include many different types of investments - when some are doing very well, you might find others are doing poorly. Unlike a baseball team, you do not have to have an investment at every position; however, you do want to be reasonably diversified for almost the same reason as a baseball team: If you are a one trick pony, with much of your investments in the same sector, you may do very well for a period of time, but when you do poorly, you will do extremely poorly.

Just like investors have different personalities, so too do baseball stadiums. For example, the Colorado Rockies play in Denver in very high altitude and the baseball travels much farther there. Because of this, the Rockies look for fly-ball hitters, who can often hit the ball out of the park, and they look for pitchers that keep the ball low and induce more ground balls. They essentially try to build their team for their home environment. While it is easy to say that every team is built to win, some are clearly built to win differently than others.

Investors also often view winning differently depending on their own situation. For some investors, winning means having low volatility and returns that are a few percentage points better than GICs. For others, winning means having a portfolio that averages 10 per cent annual gains, regardless of volatility. Based on those goals, those investors would have portfolios with different structures. You are essentially trying to build a winning portfolio that fits its "environment."

Not convinced? Here are some other quick-hit similarities:

- Whether in the ballpark or the boardroom, lots of trades get discussed, but many are never made.
- The New York Yankees were famous for paying out big money contracts to players whose best years were largely behind them. Likewise, many investors will overpay for a stock after it has had a great couple of years.
- If last year's World Series champion won with great relief pitchers and great speed on the bases, other teams will immediately try to copy their approach. If last year's market winners were U.S. tech firms, guess what is usually added to many portfolios this year?
- The "genius" manager of two years ago now knows nothing and deserves to be fired.

So what can baseball teach us about being a better investor?

- A long-term plan and discipline can help you overcome short-term emotions. There will be wins and losses along the way, but unlike those on the call-in shows, you must resist the urge to make quick decisions based on the immediate past. A longer-term perspective is needed.
- Always look to improve. If there is an opportunity to trade for a better investment moving forward, then do it. This doesn't mean that you are always trading, but that you are always looking.
- Don't hold on to an investment because you overpaid and are waiting for it to recover. If there is a way to make your "team" better going forward, you have to let go of the past and make that change.
- Don't change your portfolio to chase the latest fad. Remember who you are, what "winning" means for you, and stay focused on trying to achieve that. It doesn't mean you ignore what is working for others, but try and only incorporate strategies and approaches that fit your plan, and don't be afraid to ignore those that are not aligned with what you are building.
- Don't get emotionally tied to individual investments. What worked for you over the past few years may drag you down in the next few years. You must always be forward looking.

Even the great organizations will have losing seasons along the way, but if you follow these rules, your portfolio might just win the World Series.

*Illustration by Mike Faille/National Post*

*Financial Post*

*Ted Rechtshaffen is President and Wealth Advisor at TriDelta Financial, a boutique wealth management firm focusing on investment counselling and estate planning. [tedr@tridelta.ca](mailto:tedr@tridelta.ca)<sup>1</sup>*

## References

1. [tedr@tridelta.ca](mailto:tedr@tridelta.ca)