Similarities Between Sports and Investing

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When I watch TV, it's usually sports. This is because I enjoy seeing athletes showcase their skill and because I enjoy watching post-match interviews. I love listening to the mind-set of champions.

I love hearing their attitude when they win and lose. Here are some of my favorite sporting moments so far in 2016:

- Lebron James leading the Cleveland Cavaliers to become the first team in NBA history to come back from a 3-1 deficit to win the Championship, beating the Golden State Warriors 93-89 at Oracle Arena
- Leceister City F.C. winning the English Premier League against all odds
- Peyton Manning winning Super Bowl 50 with the Denver Broncos
- Conor McGregor and Nate Diaz going toe-to-toe in the Octagon
- Wayde van Niekerk breaking Michael Johnson's 17-year-old 400m world record at the Rio Olympics
- Simone Biles winning women's individual all-around at the Rio Olympics
- Katie Ledecky smashing the women's 800m freestyle at the Rio Olympics, winning by an astonishing 11.4 seconds

https://www.youtube.com/watch?v=Inq-uhQ_q08

Tennis

I recently read an interesting article written in 1975 titled 'The Loser's Game' by Charles D. Ellis. The article draws on the research of Dr. Simon Ramo who makes a distinction between professional tennis and the tennis played by the rest of us. According to Dr. Ramo, professional tennis is a 'Winner's Game' because the match goes to the player who's able to hit the most winners: strong well-aimed shots that his opponent can't return. Think Rafael Nadal. On the other hand, the tennis the rest of us play is a 'Loser's Game' with the winner being the player with the fewest unforced errors. His strategy is to merely keep the ball in play.

The same concept applies to investing. Great investors understand that the avoidance of losers is vastly more important than the identification of winners. This is because the mathematics of loss works against you – an initial loss of 40% must be offset by a 67% gain to be whole. Warren Buffett has repeatedly said that the rule number one of investing is to not lose money and rule number two is to never forget rule number one.

Football (soccer)

In a game of football the same eleven players are on the field for virtually the entire game. There isn't an offensive and a defensive squad like American football. The eleven players must be able to both attack and defend. Together they must deal with all eventualities on the pitch. Similarly, investors must have the ability to switch tactics based on market conditions. During the Global Financial Crisis, being aggressive would have paid off handsomely. There is a time to make money and a time to not lose money. The greatest investors are adept at both attack and defense.

Baseball

Over the years Warren Buffett has drawn many parallels between baseball and investing. Here are some of my favorites.

On staying within one's circle of competence:

> *"What's nice about investing is you don't have to swing at pitches. You can watch pitches come in one inch above or one inch below your navel and you don't have to swing. No umpire is going to call you out. You can wait for the pitch you want."*

On patience:

> *"The stock market is a no-called-strike game. You don't have to swing at everything – you can wait for your pitch. The problem when you're a money manager is that your fans keep yelling, 'swing, you bum!'"*

On judging business performance:

> *"In investing, just as in baseball, to put runs on the scoreboard one must watch the playing field, not the scoreboard."*

Conclusion

Investing is similar to sports in that it is competitive, meritocratic, quantitative and enjoyable. In the November 1, 1974 issue of Forbes, Warren Buffett pointed out why investors have it better than athletes:

> *Investing is the greatest business in the world because you never have to swing. You stand at the plate; the pitcher throws you General Motors at 47! U.S. Steel at 39! And nobody calls a strike on you. There's no penalty except opportunity. All day you wait for the perfect pitch you like; then, when the fielders are asleep, step up and hit it.*

In other words, in investing there is no mandate to act. In baseball, a batter can't wait for the perfect pitch. He would be called out if he let three strikes go by without swinging.