

# Lessons from Baseball

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*"Hitting a baseball – I've said it a thousand times – is the single most difficult thing to do in sport."*

- Ted Williams, *The Science of Hitting*

I recently read **The Science of Hitting** by Ted Williams and John Underwood. Released in 1971, it is still widely considered one of the best books on baseball. It is also a favorite among investors.

In baseball, a hitter with a batting average of .300—considered exceptional today—is going to fail at his job seven out of ten times. Imagine if Tom Brady completed three of every ten passes he attempted? If Stephen Curry or LeBron James made three of every ten shots they took, their coaches would take the basketball away from them.

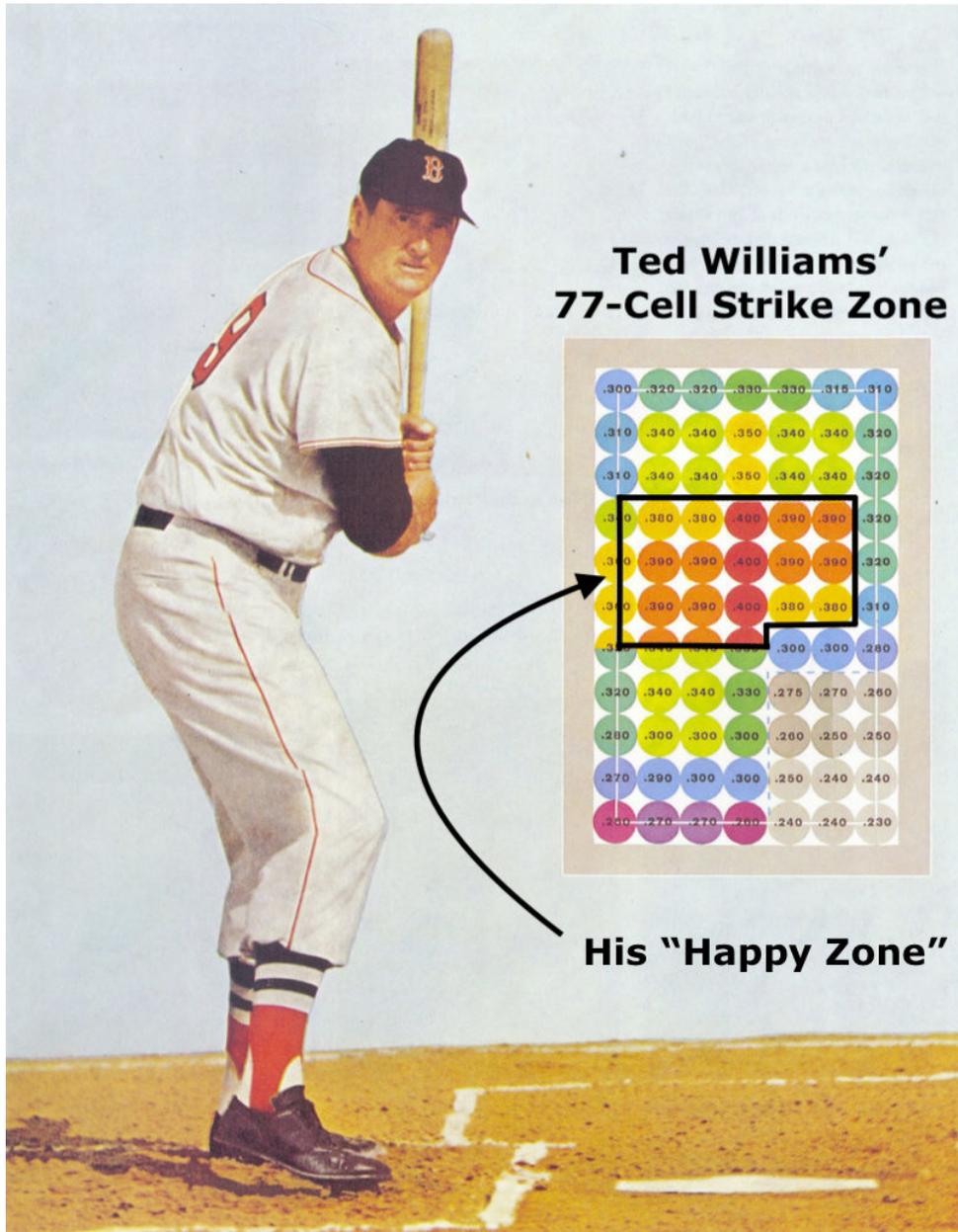
Ted Williams was an American professional baseball player for the Boston Red Sox. Nicknamed "The Kid" and "The Greatest Hitter Who Ever Lived," he is regarded as one of the greatest baseball players in history. In 1941, he set the single-season record by averaging .406—a feat no other baseball player has managed to come close.

The first rule of hitting a baseball is to "get a good ball to hit." This is because even the best hitters can't hit bad balls good.

The same rule applies to investing. Warren Buffett calls it sticking within your "Circle of Competence."

*"We try to exert a Ted Williams kind of discipline. In his book *The Science of Hitting*, Ted explains that he carved the strike zone into 77 cells, each the size of a baseball. Swinging only at balls in his "best" cell, he knew, would allow him to bat .400; reaching for balls in his "worst" spot, the low outside corner of the strike zone would reduce him to .230. In other words, waiting for the fat pitch would mean a trip to the Hall of Fame; swinging indiscriminately would mean a ticket to the minors."*

- Warren Buffett, 1997 letter to shareholders



Ted insisted on swinging only at balls in this "best" cells, even at the risk of striking out. However, securities investors have an advantage over baseball players—there are no called strikes in investing. Investors can watch all sorts of business propositions in the form of security prices thrown at them all the time.

There are over 600 public companies in Thailand, over 3,500 in the United States and over 5,000 in India. The fascinating thing is that every day, Mr. Market offers a buy/sell price on all of them. Mr. Market provides this valuable service free of charge. If his quote is uninteresting to you today, he'll be back tomorrow with a new one. And once in a while, you will find a pitch that is in your "happy zone." This is when you step up to the plate and swing.

The first question investors should ask themselves before buying a stock is: “Do I *really* understand this business?” For me, 99% of the time the answer is “no” and I take a pass.

Tom Watson Sr. (founder of IBM) said: “I’m no genius. I’m smart in spots and I stay around those spots.” Each of us should define our Circle of Competence and act on things within its boundary. The size of the circle is not as important as knowing its boundary.

The majority of my investment mistakes have been in instances where I strayed from my Circle of Competence. Examples include investing in a specialty chemicals company, a pharmaceutical company, and a steel company.

### **Other investing lessons from Ted Williams:**

Patience is critical

- *The longer a batter can **wait** on pitch, the less chance there is that he will be fooled.*

Deliberate practice

- ***Practice, practice, practice.** I said I hit until the blisters bled, and I did, it was something I forced myself to do to build up those hard, tough calluses.*

Emotional stability is key

- *Hitting a baseball—I’ve said this a thousand times, too—is **50 per cent from the neck up.***

Human nature doesn’t change

- *After two years of managing the Washington Senators, the one big impression I got was that **the game hasn’t changed. It’s the same as it was when I played. I see the same type pitchers, the same type hitters.***

Mistakes will be made

- *There is no question that some strikes are called balls, and some balls are called strikes, but you’re **far better off forgetting the calls that hurt you and concentrating on that next pitch, or that next turn at bat.***

Be aware of the capital cycle

- *The **batter who is alert will consider the environment, the park, the background.** What kind of a day is it? Is the wind blowing a gale from centerfield? If so, it will be silly to try to hit the ball 480 feet...**Is it damp and rainy?** The ball you hit won't go as far because on a damp day the air is heavier. A curve-ball pitcher will be even more effective on a heavy day. **Be alert to these things.***

Keep learning

- *As a manager, I developed a new interest in bunting because I had some pitchers who have cost us games because they couldn't bunt at an opportune moment.*