Standing Ground

Do you remember where you were on July 9th 2006? By simply dredging up a date, thousands of days ago, it seems unlikely that you will remember exactly what you were doing. But on that particular date, the finals of the 2006 FIFA World Cup were played. 31 days of intense football that saw over 3.3 million attendees in Germany, the final was watched on television by a number estimated to be around a billion. So maybe you do remember where you were. The final culminated in a penalty shootout between France and Italy, a stressful contest lasting two hours, settled by alternating shots on goal by each team, and ultimately won by Italy 5 goals to 3. Perhaps this has jogged the memory, but if the particulars are lost, the shootout can easily be found on Youtube. And would you believe there was a lesson on investing somewhere in there?

On the first strike, the Italian player shot straight forward at chest height – to the very spot where the goaltender had been standing. This would have been an easy save, had the goalie not guessed wrong and jumped to his right, leaving the centre of the net completely open. On the subsequent eight shots, seven of which were goals, the goalie guessed which way to dive correctly three times and missed the ball, guessed the wrong direction on four shots, and the single save was made by the crossbar. Playing net in football can be a thankless exercise in guesswork[1].

Imagine if the goalkeeper for France had simply stood still, in the dead centre of the net. The outcome could have been completely different. Instead of allowing the first goal, a save would have been made. And no point did either goalie render a change in result, every shot scored save the one that struck the crossbar, the role of the goaltenders in this shootout was largely ceremonial. But if both goalies had stood perfectly still, Italy would have had one fewer goal. This might not have totally changed the ultimate outcome, as Italy would have been leading 4 goals to 3 with France left to shoot. France would have needed to convert their final shot to keep the proceedings going, but that history will remain unwritten.

If about half the time a top-tier professional has no idea which way to dive, what is the impact of the goalie? Well, about half the time their role is to pick the ball out of the net, having guessed wrong. The other half of the time they have guessed right and have moved in the correct direction, and some of that time they will save the ball. Some of the time, through action, a goalie can make a save -but not often. But if they were to stand on flat feet, they would almost certainly save every shot directed right at, or near, them. So why do they bother guessing and diving? It is either borne of a false sense of ability, thinking they know which way a particular player might shoot, or it is borne of a desperate attempt to *appear* to be a meaningful participant. And there, finally and oddly, is the investment lesson.

Standing still can be more effective than acting. Had the goalie from France stood completely still and the Italian shooters only hit the corners of the net, the French net minder could expect nothing but abuse. If he simply stood there and allowed uncontested goals, he would have been blasted in the newspapers, the reporters probably not realizing they were suffering from action bias. Doing something is preferable to the human brain than doing nothing. Of course jumping the wrong way is permissible, because a goalkeeper is small and the net is huge – and the strikers are professionals. Standing still seems somehow anathematic, because it is passive. But in the case of the World Cup in 2006, it would have extended the match for France, as the first shot was to the dead centre of the net. What would have happened then remains a guess, but to a man each player from France would have given a great deal to hit the rewind button for this shot at glory.

Is this distinct from investing? Not at all. Can you pick with certainty which direction the market is going to go in today or tomorrow or the day after? Can you discern the impact of the Federal Reserve either hiking short term rates or waiting one more quarter? Can you figure out the U.S. housing number or the jobs number or OPEC? Can you guess which way that player might shoot? The answer to all of those questions is probably not; this makes each dive at a shot only a random leap rather than an impactful move. So stand still, and decline to subscribe to action bias.

And why not have your portfolio stand still, after all? TD bank has hiked their per-share dividend from 22 cents to 51.5. Emera has hiked from 22.25 to 47.75 cents per share. Rogers has gone from 3.75 cents semi-annually to 48 cents a quarter. Standing still means more than dividend hikes. On the days you own shares in these companies, you are taking your share in their earnings too. If a bank is open, someone is paying you to keep the lights on. Each cellular call, each flip of a switch, each retail transaction – you are getting paid as an owner, assuming you had the good sense to stand still and let that happen.

Not much is written about the investing acumen of Fabien Barthez, the French goaltender on that fateful day - July 9th 2006. He retired from soccer just one year later, having represented his country 87 times. We can only hope that he has taken on the investment lesson that French football fans wish he knew back then. When you cannot say for certain what is about to happen you are reduced to guessing, and by comparison standing still can generate the better result.

1 – for more on the subject, please see this excellent article from the Journal of Economic Psychology https://mpra.ub.uni-muenchen.de/4477/1/MPRA_paper_4477.pdf