Punting For Dollars

There were chicken wings, there was pizza, and there was almost certainly an adult beverage. There were over one hundred million sets of eyeballs cast on the Kansas City Chiefs and the San Francisco 49ers as they contested the must-watch North American sporting event of the year, the National Football League's 54th Super Bowl.

The NFL is built to reward two things: winning and commerce, and not in that order. The League is a moneymaking machine. Despite operating only six months of the year, the NFL generates roughly the same amount of revenue as Rogers Communications – not bad for an outfit only open on Sunday, Monday, and a few Thursdays each year. The reward for winning the Super Bowl is to be remembered forever as a champion. The greater reward is that the League sold each 30-second commercial slot for a cool US$5.6 million. At that exorbitant cost, the advertisements tend to be innovative, creative, and memorable, so much so that most viewers will have forgotten the previous play, which was most likely one team kicking the ball away to the other.

There are times during a game when the team with the ball determines that it is best for them to kick the ball to their opponents, giving the opposition control of the football. It is considerably easier to score while on offence so, kicking the ball away to the other team hurts your odds to score, and therefore, win the game. For some, this makes the punt equivalent to an eraser on a pencil, only there to rectify mistakes rather than anything more constructive.

But maybe the punt should be viewed more favourably? There were around 2,200 of them this season, bringing the total to nearly 50,000 punts since the turn of the century. That is a lot of failures, but it is all washed away by time. You may not have noticed how many punts there were in Super Bowl 54 – there were four, and you might remember that there were 14 punts in last year's Super Bowl, but you would be hard-pressed to offer up how many there were in the game five years ago (there were 10). It seems obvious then that punting is not the failure of strategy, but part of the strategy itself; sometimes, kicking the ball away and regrouping is the most sensible thing to do.

Punting or selling is vitally important to the health of an investment portfolio too. Trimming winners, rebalancing back to target weights, or selling ideas that underperformed are all important parts of portfolio management. Nobody enjoys paying capital gains taxes (is there any pleasure in capital losses?), but outsized holdings can do more damage to a long-term portfolio than an inescapable tax burden. Equity markets have more than tripled from their post-crisis lows, all but guaranteeing some need for active rebalancing to keep client accounts in line with their long-term plan. Some punting, as part of the strategy, can be a good thing.

Money-losing assets offer three opportunities: in a taxable account they can be sold to create a long-term tax advantage; in any account, they can be sold to avoid the misery associated with looking at lost money; and they offer a fresh start since the money generated from sales can go into a new idea or onto the sidelines. Football, similar to investing, comes with a playbook, it falls to the coach to decide which plays to run and when, and sometimes the best play is to punt and play defence for a little while.

As we said, the NFL is a moneymaking machine. People will tune in and watch, hoping for lots of touchdowns and field goals. The League has no objection to someone punting; they will make their money on the commercial that comes soon after. Rather than looking at punting (or selling) as a failure of strategy, instead, consider it part of the long-term plan to win – in the investment arena as much as on the football field.