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Lessons from the best

The National Football League's Super Bowl 51 championship game was followed by much of the QV team this past month. The contest was a healthy reminder that anything can happen, even when consensus (myself included) concluded the game was over at half-time when the eventual winners trailed 21-3. Other parallels between sports and business are readily evident, including the steady march of improving competition, the difficulty in achieving #1 every year, the importance of philosophy and team process, and the required internal commitment to grow and develop each day. As a result, there are a few applications from sports that we can consider to become better investors.

Making adjustments mid-game

During sports competitions, updating game plans for what the competitor is actually doing versus what was expected is essential to victory. A key in business and investing is to both process and update probabilities for new information and data. Whether an opponent changes its go-to-market strategy, or market conditions shift rapidly for a business, it is crucial to update original expectations to account for new information. Failing to factor in reduced customer demand or increasing competition quickly and accurately enough can lead to underwhelming investment performance or losing business cases.

Sticking to the process when down

In sports and in business, there are going to be times when you fall behind the competition. When lagging on the scoreboard, there can be a natural tendency to alter one's strategy to attempt to "catch up". In investing, there unfortunately will be times when relative performance lags either a benchmark or peers. However, trying to be a hero and taking outsized risks, or changing the investment process to make up ground, is likely a losing long-term proposal. A key difference is that, in sports, losing a game can be the worst finite outcome. As investors, we have a dual goal of preserving and growing capital for clients over time. As a result, investment losses are not limited to a game, a calendar period, or a point in time. Trying to do too much in one play or swinging at low expected value pitches can be detrimental to preserving capital.

Focussing on value

With the introduction of salary caps in professional sports contracts, realizing value (output received in relation to salary paid) has become even more vital to a team's enduring success. Successful organizations have done a great job of letting players walk, who, despite tremendous skill, would limit the team's ability to fill out the roster with additional skill. In business, the concept of value is equally essential, requiring discipline to let go of expensive "stars", and to consider the opportunity cost of owning an asset. While our value assessments can be wrong at times, we seek to minimize the impacts by considering the total potential costs relative to return. This is aided by considering inherent individual security risk, as well as discerning and factoring in the opportunity cost to the portfolio.

Learning from past experiences

While winning all day and every day is a desired outcome, reality dictates otherwise. Each year only one team wins the championship. Great teams learn from each practice and each game situation, no matter how successful. In investing, an actual inevitable outcome is the potential for losses. However, understanding what went wrong, admitting what could be done better, and learning for the future is central for us to evolve as investors.

Team-first culture: by doing your job

A hallmark of successful sports organizations is a team-first mentality, with each individual focussing to fulfill respective roles toward the common goal of success. At QV, our definition of individual and team success is to provide the best in class investment performance and service to our clients. While we cannot guarantee a "W" every game, whether wearing an operations, investment or client service helmet, we are committed each day to achieving this common goal.

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