



# Just buy the haystack

**A**nother Fifa World Cup has come and gone, and we now have four more years to wait for the next instalment. Every time that a major tournament like this takes place, our company arranges an office-wide competition for staff members to show off their football knowledge and forecasting skills by trying to guess which teams will be more successful than others as the tournament unfolds.

My colleague Richard, who has a black belt in spreadsheets, sends a list in advance, with fictional “prices” being specified for each team roughly in accordance with what the bookies suggest in terms of pecking order. Accordingly, Brazil was the most expensive this time round (as they usually are), closely followed by Belgium. Eventual finalists France and Argentina made up the next two places, underscoring the fact that betting markets are reasonably efficient most of the time.

Every participant in our staff competition then had a notional budget to spend on as many teams as they could afford, with prices being scaled in such a way that nobody could buy more than one out of the top handful of favourites (which also included England).

The three cheapest teams could be picked up for less than 2.5% of the cost of hot favourite Brazil. It did not, however, stop one of them, Saudi Arabia, beating eventual champions Argentina in the opening round. This serves to illustrate that, while betting markets might be pretty efficient over the course of the tournament, one-off surprises are always possible.

One of my colleagues, Sam, knows nothing about football, by his own admission. But he wanted to participate, and he has heard of value investing. So, he followed a simple strategy: buy all the cheapest teams, then

the second-cheapest ones, and so on, until his budget ran out.

In accordance with the intricate price table put together by Richard, the spreadsheet jockey, Sam managed to pick up no fewer than 15 of the 32 teams. Thanks to this, he was one of only two people in the office who selected the surprise package of the tournament, Morocco.

When the knockout phase of the tournament started, Sam “I know nothing about football” was therefore solidly in the lead, with five of his picks making it through to the last 16.

He was never going to win, though (unless a team like Morocco actually ended up going all the way), as the points system was heavily skewed towards rewarding the finalists. Based on this, the office champion was always going to be someone who picked the actual winner of the tournament (with a few other selections picking up incremental points along the way, as the final drew ever nearer).

Based largely on the success of Morocco, though, Sam put in a more than creditable performance, ultimately finishing in 16th position out of 59 participants. In

asset manager-speak, he thus finished just outside the top quartile ... and you’ll never get fired for that performance!

## Failed by Germany

There’s a message for active investors in all of this. Stock picking is hard, and some of the better-performing, smaller companies are only noticed by fund managers a number of years into a cycle of outperforming the market. It was Jack Bogle, founder of Vanguard and pioneer of index investing, who famously said that investors should not try to look for the needle in the haystack (Morocco, in this instance) – they should just buy the haystack.

And how did I do, I hear you ask. Well, I figured one could hardly go wrong by including much-favoured Germany (second only to Brazil in the all-time standings, having won the World Cup four times since 1954). I was in good company with this selection: Germany was the most heavily backed team, with nearly half my colleagues picking them, yet they lost to Japan and fell at the first hurdle. Tells you something about the madness of crowds, doesn’t it?

I also quite fancied second seeds Belgium, with their bevy of world-class players. Accordingly, I blew more than 90% of my budget on my two top choices and used what was left to pick up Costa Rica and Ghana at bargain-basement prices.

None of my selections made it to the knockout stages, which meant that I joined two of my colleagues on exactly zero points at the end of the competition.

But I’ve told you before that I don’t believe in forecasting, haven’t I?

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