

# KIM: Investors and football fans--focus on process, not outcome.

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February 14, 2015



Facing second-and-goal from the New England Patriots' 1-yard line with 26 seconds to play in the Super Bowl, Seattle Seahawks' coach Pete Carroll called for a pass instead of handing the ball to Marshawn Lynch. The Patriots intercepted and the Seahawks lost, 28-24. Everyone from Hall of Famers to armchair quarterbacks immediately declared it the "worst play call in history."

Or was it?

Investors and football fans tend to focus on **outcome**, which is simply the final score. How did your portfolio perform last year? Who won the game? Outcome is the result, but doesn't tell you anything about how that result was achieved. Outcome is about the "right now."

**Process** refers to the specific methodology utilized by a portfolio manager or coach. Unlike outcome, process is both *repeatable* and *controllable*. Process is about the "long term."

We're hard-wired to focus on outcome. Outcome is easier to assess than process. You know exactly how your portfolio or team performed. At the end of the day, you can "spend" outcome, but not process.

Unfortunately, over the short-term, it is impossible to determine if a given outcome was caused by a good or bad process. It is a mistake to assume a good outcome is the result of a good process and a bad outcome implies a bad process.

Managing a portfolio or team are both probabilistic endeavors, which means good decisions will sometimes lead to bad outcomes and bad decisions can lead to good outcomes. The most successful practitioners focus on process over outcome because they are confident *over the long haul*, process will dominate outcome.

The expected value of any investment can be modeled using the possible payoffs (i.e. stock price) for a given outcome and the probability of those outcomes materializing. We try to identify situations where there is a significant gap between our calculation of expected value and the current price of the security (i.e. *positive expected value*). If we correctly apply probabilities and payoffs to create a portfolio of investments with positive expected values, *over the long haul* we should be successful.

Matt Lauer's interview of Carroll on "Today" was a terrific discussion of process vs. outcome. According to Carroll, the Seahawks practice specific game situations hundreds of times, which leads to great confidence in their play calls. Thus, "I made the call that comes out of the process, preparation and practice."

Carroll needed to stop the clock twice to have a play available on second, third and fourth down. With only one timeout, one of the plays *had to* be a pass. The Patriots stacked the line to stop Lynch. If Lynch was stopped short, Carroll would have had to burn his last timeout, forcing a pass on third down. An incompletion would stop the clock, preserving the timeout and forcing the Patriots to defend both the run and pass.

NFL quarterbacks attempted 109 passes from the 1-yard line this season, with 66 completed for a touchdown (61%). The 109<sup>th</sup> was the **only** interception. If the pass had been completed, pundits would be hailing Carroll's brilliant call and exorcising Patriots' coach Bill Belichick for wasting 30 seconds by not calling a timeout.

Instead, as Carroll said, "it was the worst *result* of a call ever."

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