

KIM: Herd mentality dangerous for NFL coaches and investors

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Economist John Maynard Keynes said a successful investor must be “eccentric, unconventional, and rash in the eyes of average opinion.” The difficulty is, “if he is successful, that will only confirm the general belief in his rashness; and if in the short-run he is unsuccessful, which is very likely, he will not receive much mercy.”

Thus, investors are often reluctant to act on their own information and go against the conventional wisdom and comfort of the herd, fearing damage to their reputations as sound decision makers. Keynes famously said, “Worldly wisdom teaches that it is better for reputation to fail conventionally than to succeed unconventionally.”

Keynes wrote these words in 1936, but he could have been talking about the Green Bay Packers, Coach Mike McCarthy and one of the most exhilarating games in NFL history.

The Packers traveled to Arizona for a playoff game against the Cardinals (which had annihilated the Packers 38-8 three weeks prior).

A 7-point underdog, the Packers trailed 20-13 with no time outs and less than a minute to play when they faced an impossible 4th & 20 from their own 4-yard line. QB Aaron Rodgers heaved the ball, which teammate Jeff Janis improbably caught at the Arizona 36 yard line.

With the ball back at the Arizona 41, there was time for one final desperation play. Rodgers fired the ball into the end zone, which was again miraculously caught by Janis. The Packers trailed 20-19 with 0:00 on the clock.

McCarthy had the choice of A) attempting a game-tying 33-yard extra point kick that would send the game into overtime or B) going for a 2-point conversion that would win the game immediately.

This was no different than any investing decision. Both are probabilistic endeavors. You assign probabilities to various possible outcomes. The *process-oriented* coach or investor takes the action with the highest chance of success.

McCarthy had seconds to decide which was greater, the chances of 1) Rodgers gaining the 2-yards needed for the immediate win or 2) making the kick to tie AND winning in overtime.

Nate Silver’s website (www.FiveThirtyEight.com) uses statistical analysis to tell compelling stories about sports, elections, politics, economics and science. Since 2001, NFL teams have converted 47.2% of their 2-point tries (431 of 913). Kickers made 94.3% of extra-point kicks in this first season from 33-yards (1,131 of 1,199). Since 2001, the visiting team has won 45.5% of overtime games (110 of 242).

Using just league averages, these three numbers determine which option would have given the Packers the best chance to win. Going for 2-points and the win would have succeeded 47.2% of the time. Attempting the kick AND winning in overtime would have succeeded 42.9% of the time (94.3% of extra-point kicks times 45.5% visitor overtime wins). **Thus, going for 2-points would have been superior by 4.3% (47.2% minus 42.9%).**

We can argue until the cows come home about the particulars. Over the past two seasons, Rodgers was 5 of 9 on 2-point attempts (55.6%—clearly above average). Additionally, the Arizona defense had just given up 96 yards in less than a minute and was reeling. The Packers were underdogs, on the road and decimated by injuries—so their chances of overtime success were probably below average.

Alas, McCarthy elected to kick the extra point. The Cardinals got the first possession of overtime and drove 80-yards in two plays for the winning touchdown. Rodgers never touched the ball again.

Herd mentality can afflict NFL coaches and investors. Don't buy on euphoria or sell on panic, just because the crowd is. As Silver says, "this isn't about passions and it isn't about statistical mumbo-jumbo. It's about arithmetic."

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