

KIM: Love or despise Patriots, but follow their “play to win” approach for investing success

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The Atlanta Falcons led the New England Patriots 28-3 after scoring a touchdown with 8:31 to play in the third quarter of Super Bowl LI. According to ESPN, the Falcons still had a 99.6% win probability after the Patriots cut the lead to 16 with 9:44 remaining in the fourth quarter. Alas, the Patriots scored 31 unanswered points to win in overtime, 34-28.

The margin between the thrill of victory and the agony of defeat can be miniscule. Whether an athletic contest or the “game” of investing, many factors determining whether we win or lose are beyond our control. However, we *can* control how we approach the game and respond as events unfold, which can be just as important.

It’s easy to find examples of players or teams snatching defeat from the jaws of victory. Whether the result of “choking” or “playing not to lose,” the result is the same. Fortunately, understanding our response to the stress of competition has both mental and physical components can help us change our behavior.

That’s the message of Po Bronson and Ashley Merryman’s [Top Dog—The Science of Winning and Losing](#).

According to the authors, “playing to win” and “playing not to lose” are “diametrically opposing strategies, triggered by different psychological and physiological mechanisms. Playing to win involves an intensification of effort and continuous risk taking. The equivalent for playing not to lose is conservatism and trying to avoid costly mistakes.

“Under intense pressure, having a strategy of avoiding mistakes leads, by itself, to more mistakes. This is the paradox of playing not to lose.”

Further, “often biology and psychology are in a war for control. When biology gets the upper hand, your mind can’t turn the tide, and you are its victim, whipsawed by the effects of your body’s response. But when people say that the difference between an elite competitor and an intermediate competitor is all mental, that’s accurate: **becoming a better competitor is about controlling your psychological state, which in turn alters your underlying physiology.**

Most simply put, if you can control your fear, then you can control your biology, too.”

For investors, the corollary to “playing not to lose” is “loss aversion,” an innate human trait also having emotional and physical components.

Behavioral finance says the pain investors feel from a loss is about twice as strong as the pleasure felt from an equivalent gain. To illustrate, assume I offer you a bet on the flip of a coin that will pay you \$150 if you guess correctly, but cost \$100 if wrong. Since you have the same 50% chance of winning \$150 or losing \$100, your “expected return” on each flip is winning \$25. Rationally, you should take this bet all day, but research shows most people won’t.

When the market hits an inevitable rough patch, it’s easy to see how investors’ loss aversion can lead to panic and trigger harmful short-term decisions. Trying to avert losses often leads to averting gains.

It’s painful to admit, but the Patriots play to win. That’s why they are who they are. As Warren Buffett said, “Games are won by players who focus on the playing field—not by those whose eyes are glued to the scoreboard.”

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