What Premier League Goalkeepers Can Teach Us About Managing our Investments

On a rainy March night in Leicester, the home-town Foxes came up against Aston Villa in the final Premier League football match before the Covid-19 lockdown stopped the season dead in its tracks for three months.

In the 63rd minute, the Aston Villa goalkeeper Pepe Reina, once of Barcelona, Liverpool & Spain, is standing between the goalposts as Leicester striker Jamie Vardy lines up to take a penalty.

Deciding to play mind games, in an attempt to put Vardy off whilst the video replay official checked the referees decision to award the penalty was correct, Reina embarked upon a monologue, telling Vardy that he knew exactly where he was going to put the penalty. “Straight down the middle”, (or something a little less polite!), he is believed to have told him.

However, having tried to call Vardy’s bluff, Reina then chose to dive to his left...

Do I need to tell you where Vardy put the penalty?

Yes, you've guessed it, Vardy blasted it straight down the middle, ultimately calling Reina's bluff.

Vardy then ceremoniously goaded Reina after winning the battle of the mind games.

Ok, so what's that got to do with investing, you might ask?

First, let's talk mind games

That irrational investing brain you have plays mind games with you at critical moments in your investing lifetime (just like a penalty is a critical moment in the lifetime of a football match).

The reality is that listening to the mind games and then acting irrationally just won't work. Yours is a long-term plan!

There will be rough patches along the way and making unwise short-term decisions will normally result in a negative outcome, because it hasn't been properly thought through and doesn't align with the long-term plan.

And of course - There's always someone better at mind games than you (Take a bow Mr Vardy!)

But what else can a goalkeeper's behavior during a penalty kick teach us?

There has been a lot of research done on how goalkeepers can be most successful at saving penalties. This large amount of data on penalties in football provides a unique opportunity to investigate strategic decision-making at critical times. In effect, it is a test bed for understanding more generally how effectively people operate under competitive pressures.

Anticipation

Because of the short time it takes from the penalty kick being taken, to the ball crossing the goal line (typically between 0.2 and 0.4 seconds), a goalkeeper must normally anticipate where the ball will be kicked, rather than reacting to the shot itself - You can clearly see this as a goalkeeper so often dives in the opposite direction to where the penalty was kicked.

In terms of investing there are a couple of terms we can use to better describe a goalkeepers' act of anticipation at a penalty kick.

The first is 'Market Timing' – or trying to anticipate both the best time to make an investment and the best time to take your money out of an investment in order to maximise your returns.

As you have read before from my article in December 2019 Is Market Timing a Viable Investment Strategy?, the likelihood of calling market tops and bottoms consistently is so remote that the odds are essentially zero - So I am not going to expand on that here, because an essentially zero percent chance isn't really worth taking.

Another term we could use for anticipating the market is ‘GAMBLING’.

People who ‘bet’ on the outcome of sports games, throwing dice or the flip of a card are strictly gambling.

Trying to anticipate the stock market whilst calling it ‘investing’ means you have no understanding of the risks, because what you are really doing is speculating or gambling.

The difference between investing and speculating or gambling is the difference between taking calculated or uncalculated risks.

An uncalculated risk is random, such as pressing the start button on a fruit machine; or putting a chip on black in a casino.

The calculated risk however is being taking by the casino, in that the occasional big win by a customer is significantly outweighed by the much larger number of small wins they accumulate by the players choosing incorrectly. As we all know – The house always wins!

Long-term investors are more like the casino than the player at the table. The odds of positive returns are in their favour because they don’t gamble, they ride the wave during the difficult times and enjoy the fruits of all those many years of small daily gains from holding steady.

But what if you knew where the penalty was likely to be kicked? And what would you do with that information? What if you knew where the stock market would go and what would you do with that information? This brings us to...

Don’t take a dive, stand there and do nothing

Well, where do penalty kicks go?

To the left 36.99% - To the right 31.29% - In the centre 27.8% (*3.92% of penalty kicks miss completely, either going over the crossbar or wide of the post) (Source: Sportsmatrix.com).

However, goalkeepers dive to try and save penalty kicks 93.8% of the time - even though nearly 30% of all penalties are booted down the middle. All the goalkeeper has to do is stand still and the chances are that they will save 25% of the penalties they face without the need to gamble by anticipating where it will go.

So why do they dive so often? Let's ask the question a different way…

In your working life, how many times have you been idly chatting with a colleague or playing cards on your computer, then immediately start shuffling papers for absolutely no reason to look busy when the boss walks into the office?

It's the same for the goalkeeper. He is standing there in front of 30-50,000 people (including his boss) as the penalty is about to be taken. Of course it's better to 'shuffle papers' and look busy by diving, than to just stand there and do nothing – Imagine the abuse he'd get for doing nothing!

It's the same with managing your investments – many people feel they must do something to react to the stock market suddenly changing.

But all the data is there from the past 100 years and more, just like the data is there for penalty kicks – So why not use that data to your advantage?

The data shows that there will be occasional bumps along the road, when the stock market reacts (sometimes violently) to something political, geographical, medical etc etc.

That same data also shows that the stock market recovers and improves in the longer-term, so isn't the key to do the following?

Do your research, look at what happened in the past, plan your personal financial goals, formulate a long-term plan to meet those goals and have the nerve not to 'take a dive' or 'shuffle papers' by listening to that irrational investing brain when the critical moments appear. Stand still and do nothing, because you know that the turbulence always subsides in the end.

It certainly would be interesting to see a goalkeeper adopt this plan when facing penalty kicks – I'm sure he'd save more penalties if he did stop taking a dive when logic tells him to stand still!