Betting on the Unpredictable: Put That Strategy on Ice – Aaron Vickar

I love hockey! My parents were born in Canada. The first time I was on skates was on a frozen rink. Outside. Freezing cold. In Winnipeg, Manitoba. I wore an original Dave Christian jersey (if you don't know who he is just think, "Do you believe in miracles?!"). I still have that jersey.

I played competitively from age 5 to about 25, hitting every level along the way with a final call-up into AAA hockey — one level below the NHL. I met my wife while playing hockey. My career with Buckingham has a tie-in to hockey. Now my son is following in my footsteps as a goalie, so I get to enjoy hockey through the anxious, proud eyes of a parent (and I know now how stressful *that* was for my own parents).

I owe practically everything to hockey.

So what does my love of hockey have to do with investing? As "my" St. Louis Blues are playing in the Western Conference Finals, I've been thinking about how right (or maybe wrong) the "experts" were in predicting not only who would make the playoffs, but who would take home the elusive Stanley Cup — arguably the toughest championship to win in all of sports.

I reviewed WhatIfSports.com (a sports simulator that partners with Fox Sports) to see how "the experts" have done recently in predicting the eventual Stanley Cup winner:

Year	**Odds Given to the Eventual Winner**
2009	48%
2010	76%
2011	42%
2012	47%
2013	73%
2014	54%
2015	40%
Average	**54%**

This means the predicted winner actually won only 54% of the time. Better than a coin toss, but certainly not stellar. Now, these numbers are really even worse when you dig in because:

- They were to determine the Stanley Cup champion AFTER they knew who was in the playoffs.
- In sports, "insider trading" is legal, meaning injuries already are known, as is home ice (an advantage) and which players are hot or cold.
- Even with all of this "insider information," the "experts" were only 54% accurate.

So what about market experts? An outfit that grades market "gurus" reviewed 68 market "experts" and tracked their accuracy rates. Over the period studied, the average accuracy rate was 46.9%. In other words, they were wrong more often than they were right. The "best" expert had an accuracy rate of 68% (the best hockey prediction on WhatIfSports.com was

76%). Only 16 of the 68 experts were able to beat the hockey prediction average of 54%. (For the record, Jim Cramer was accurate 48.6% of the time, making a coin toss a better "bet.")

To be fair, the market experts did not have access to insider information. They had to rely on public data and they faced many factors outside of their control. Making market forecasts is a tough business. With so many variables and unknowns going into market predictions, it is not surprising they were wrong more often than right. The bigger questions are: Why do people even pay attention to these predictions? Or worse, why do they invest their money based on them?

Ask yourself: If you had $100, $100,000 or even $1 million to invest, would you put your money into a prediction that is right 54% or 47% of the time? Obviously, going with the 54% odds would be the better route. In effect, you have a better chance of betting on the Stanley Cup champion than growing your wealth based on the predictions of market "experts." We all know it is an absurd suggestion to bet your retirement in a Vegas sports book, so with even worse odds, how absurd is it to bet your retirement on these so-called experts?

The SPIVA® U.S. Scorecard has been published for the past 14 years, serving "as the de facto scorekeeper of the active versus passive debate." This data is from the 2015 year-end SPIVA report:

- Over the five-year period, 84.15% of large-cap managers, 76.69% of mid-cap managers and 90.13% of small-cap managers lagged their respective benchmarks.
- Similarly, over the 10-year investment horizon, 82.14% of large-cap managers, 87.61% of mid-cap managers and 88.42% of small-cap managers failed to outperform on a relative basis.

To sum it up, using expert predictions to bet on the Stanley Cup comes with a 54% accuracy rate. "Betting" on market "experts" has a 46.9% accuracy rate. And "betting" on active management to meet and/or exceed its benchmark has an average accuracy rate of 15%. Simply put, the odds you'll meet your most important financial goals through a low-cost, evidence-based approach to investing are much, much better.

I was at Game 1 of the Conference Finals with my three kids. And I would love to see a Stanley Cup championship parade down Market Street in St. Louis. But with the odds of me predicting the winner at about 50/50 (adding my emotions to the mix would result in a different story entirely), I think it's best for me to stick with attending games, watching them on TV and investing time with my family enjoying the experience — not trying to win financially. The same can be said about investing. The odds are stacked against even the smartest "experts," yet some people not only listen to them, but heed "advice" with an (aggregate) accuracy rate in the realm of 46.9%. Or worse still, are lured in by active management's even smaller (perhaps 15%) odds of outperformance. To me, the best and surest path seems to be "betting" with the evidence.

If "my" Blues make the Stanley Cup Finals, my heart might tell me they have a 100% chance of winning, but my odds will actually be closer to even. As a financial advisor, I know better than to invest my money on such an unpredictable outcome, despite a lifetime of fandom that might make me want to believe otherwise. My dollars will be spent on experiencing the event in the hope that I see our first Stanley Cup in team history, which has been ever elusive to me as a player and a fan.

LET'S GO BLUES!

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