NFL, Fantasy Football & Active Investing

Could you identify a Tom Brady-manager AND know when to trade him?

What does fantasy football have to do with investing? It teaches you to avoid Nick Foles-like fund money managers, whose one-time Super Bowl achievements often decline the following year.

And it might also suggest that you avoid Tom Brady-like fund managers, whose six Super Bowl rings sure look tempting.

With the start of the NFL season, both are worthwhile reminders. But let's examine the latter, because it's a mistake many investors fall for – selecting the star manager every year.

Fantasy Football

Fantasy football is a virtual competition where you create a team by compiling star players from other squads. You make trades during the season, attempting to bolster your roster and improve team standings. A critical aspect in fantasy football is to select players that should do well, before they do.

Most fantasy footballers would have loved to have drafted all-pro and NFL MVP Patrick Mahomes, quarterback for the Kansas City Chiefs for last year's fantasy football roster. Yet who could have predicted his performance last year?

And how many people were hoping to draft Andrew Luck this year (he retired just before the start of the season at the age of 29 by the way)?

Selecting Tom Brady as Quarterback

That brings us to Tom Brady, quarterback of the New England Patriots. He has led his team to six Super Bowl rings thus far in his sure Hall of Fame career, which is the most of any quarterback. Surely you would want him as your signal caller for your fantasy team, right?

Here's how fantasy football can teach us about investing.

Selecting Tom Brady as Portfolio Manager

Many investors competitively attempt to beat the market, using asset managers touting good past performance. The investors believe that these managers will continue to do well going forward. Yet the odds are stacked against the investor who chooses an investment manager to generate higher returns by actively managing the portfolio.

That strategy often means frequent buying and selling, compared to simply and passively investing into the overall, broad-based markets with vehicles that track benchmarks.

Fantasy footballers, like fantasy investors, often choose Tom Brady-like managers, with past performance that has exceeded market returns for the most recent year. Yet if and when that manager does not perform well, many fantasy investors shout, "Boo" and look to replace their once revered manager with another one.

To be fair, some active money managers will deliver above-market performance. The problem is you cannot predict, nor can anyone guarantee, that a particular winning streak will continue into the future.

Active vs. Passive

Statistics show that in any given year, upwards of two-thirds of active managers do not outperform the passive, index benchmarks that they are measured against.

You may believe in your ability, much like fantasy footballers, to select and maneuver among active money managers. You may think you can consistently beat the market, instead of simply pursuing an asset allocation-based strategy and passive management, which attempts to closely track market returns. If so, you must also believe that:

- Financial markets are not efficient and stocks are often mispriced.
- Successful, active stock managers exist and will continue to demonstrate their superiority in terms of identifying mispriced stocks and timely buying underpriced and selling overpriced ones.
- You are able to identify these Tom Brady-like managers and/or discover future stars in advance, while also knowing when to trade them.

Since the odds are against selecting and switching managers optimally, there is a compelling argument for allocating one's portfolio via a passive, diversified, long-term strategy.

Reality Trumps Fantasy

Please note, of course, that this thought is intended for general information only. For specific investment advice tailored to your individual situation, you should consult your financial advisor.