

LIFE, INVESTED

## Hoop Dreaming Is Fun in March. Investing Realities Apply across a Lifetime.

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Every year at this time, the NCAA men's basketball tournament thrills fans and creates so much interest that it's estimated one in four Americans filled out a bracket to try to predict who will win it all.<sup>1</sup> I really enjoy watching the games and always fill out a bracket in a pool with my family. This year, I couldn't help but see connections between investing and March Madness.

Let's start with the similarities:

### **Picking winners is hard.**

- Maybe your NCAA championship bracket picks are as wrong as mine, but don't feel bad. The odds of correctly predicting the winner of all 63 tournament games are astronomically high.<sup>2</sup>
- In the stock market, [most professional investors don't beat the market](#) in a typical year.

### **An informed approach improves your odds.**

- If you want to do well with your bracket next year, what should you do? The tournament selection committee seeds teams from 1 to 16 in four regions. Always pick the higher-seeded team, and you'll have a good chance of winning more games than most. It doesn't mean you're going to be the champion of your pool, but year after year, you'll probably pick more winners than most.
- With investing, rather than trying to guess winners, you can take an informed approach that relies on decades of academic research, and choose to buy the market. Over the long haul, US stocks have compounded at about 10% a year.<sup>3</sup> Having a plan can help you position yourself to have a better investment experience.

### **Good luck and good strategy are not the same.**

- Every year, some money manager is going to have the best returns. Every year in each bracket pool, someone wins. But in both cases, it's unlikely that they will continue to come out on top year after year.

- When people say, “Look at all the money I made on this stock,” I feel it’s the same as when someone says, “I picked Fairleigh Dickinson!” Good for you—you got lucky.

How about the differences:

**The thrill of participating in a March Madness pool with a lot of people comes from the possibility of winning the pool.**

- My family fills out a bracket each year, and we engrave the name of the winner on a little trophy. And to most people it’s only the winner who matters. I don’t even remember who in our family came in second last year.
- Investing is different. You should have the goal of doing a little bit better than average. Taking unnecessary risks can lead to big losses. As investors, we must remain focused on trying to capture that long-term compounded return of the market, also known as the expected return. That means taking a cautious approach and avoiding the temptation of trying to pick unexpected winners or underdogs.

**There’s always next year.**

- With the NCAA, there’s a new bracket to fill out every year. You get a fresh start.
- With investing, your results are cumulative. There are no do-overs. There can be pain with investing. Unlike with filling out the brackets, a bad investing outcome last year sticks with you this year and always.

*While there are certainly similarities between March Madness and investing, it’s crucial to recognize the key differences.*

While there are certainly similarities between March Madness and investing, it’s crucial to recognize the key differences. When you’re picking brackets, sometimes the only way to be the big winner is to take big risks on underdogs, which can be a fun and exciting game to play. With investing, it’s better to take a measured and disciplined approach with the goal of pursuing higher expected returns while reducing risk. So enjoy the Final Four, but don’t confuse the risk of filling out a bracket with the risk of investing in markets.

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1. “March Madness Viewership, Bracket Participation Poised for Jump in 2023,” Morning Consult, March 14, 2023.
  2. “The Impossible Allure of the Perfect Bracket,” *New York Times*, March 12, 2023.
  3. In US dollars. S&P 500 Index annual returns 1926–2022. S&P data © 2023 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio.

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