

# Play the Game to Win

03/22/2017

## Play the Game to Win

### What Rick Barry and the Atlanta Falcons can teach us about risk management

*“Something about the crowd transforms the way you think” – Malcolm Gladwell - Revisionist History*

With 4:45 remaining in Super Bowl LI, Matt Ryan, the Atlanta Falcons quarterback, threw a pass to Julio Jones who made an amazing catch. The play did not stand out because of the way the ball was thrown or the agility that Jones employed to make the catch, but due to the fact that the catch easily put the Falcons in field goal range very late in the game. That reception should have been the play of the game, but it was not. Instead, Tom Brady walked off the field with the MVP trophy and the Patriots celebrated yet another Super Bowl victory.

NBA basketball hall of famer Rick Barry shot close to 90% from the free throw line. What made him memorable was not just his free throw percentage or his hard fought play, but the way he shot the ball underhanded, “granny-style”, when taking free throws. Every basketball player, coach and fan clearly understands that the goal of a basketball game is to score the most points and win. Rick Barry, however, was one of the very few that understood it does not matter how you win but most importantly if you win.

The Atlanta Falcons crucial mistake and Rick Barry’s “granny” shooting style offer stark illustrations about how human beings guard their egos and at times do imprudent things in order to be viewed favorably by their peers and the public. It is this protective behavioral trait, rooted in the fear of being different, that frequently weighs on our ability to make decisions that are in our best interests. As equity markets climb to levels that have previously been associated with historic financial bubbles, and portend massive drawdowns, this article is another way of reminding investors that the ability to suppress the ego is needed if one is to mitigate the potential consequences of the current market bubble. As previously discussed in [Limiting Losses](#), controlling drawdowns is paramount to compounding and long-term wealth accumulation.

#### Dan Quinn

The story of Super Bowl LI will go down as a miraculous comeback and one of the greatest games ever. It could have easily been a relatively boring blow-out, with the commercials and halftime attraction garnering the fans memories. When Julio Jones completed his astounding catch to give the Falcons a first down on the Patriots 23 yard line, Falcons coach Dan Quinn had a decision to

make. It was not really a football decision but a basic judgement of risk and reward. He could conform to the conventional path and keep the drive alive in an effort to score a touchdown or he could have had quarterback Matt Ryan take a knee for three straight plays, force the Patriots to use their timeouts, and kick a field goal. With either decision, a score would have, in all likelihood, sealed a victory.

Quinn elected to go for the touchdown. Unfortunately, a quarterback sack and a holding penalty in the series pushed the Falcons backwards to midfield and turned an easy field goal attempt into a punt. The Patriots got the ball back and proceeded to tie the game, sending it to overtime where they ultimately stunned the Falcons.

### Rick Barry

Malcolm Gladwell, in his podcast series [\*Revisionist History – The Big Man Can't Shoot\*](#), highlights how ego, pride and the opinion of the masses can prevent us from doing the right thing. The focal point of the narrative is NBA Hall of Famer Rick Barry who had a storied professional basketball career that included being named rookie of the year, 12 all-star game appearances, and an NBA championship. In 1980, at the time of his retirement, his 90% career free throw percentage was the highest in NBA history. Despite all of his accomplishments, Barry is best known by most people as the guy who shot free throws underhanded.

In 1962, Wilt Chamberlin scored 100 points in a single game, which to this day stands as a record. Less well known is that, in that same game, he made 28 free throws which is also a single game record. Chamberlin, a career 51% free thrower shooter, shot 88% from the free throw line on that record-breaking night. It was not a fluke. That was the only game of his career that he shot free throws underhanded. Despite his historic achievement that night, he never shot underhanded again. In his words *“I felt silly, like a sissy shooting underhanded. I know I was wrong. I know some of the best foul shooters in history shot that way. Even now the best one in the NBA, Rick Barry, shoots underhanded, I just couldn't do it.”*

Like Wilt, NBA legend Shaquille O'Neal (“Shaq”) was a terrible free throw shooter. Shaq shot free throws at a paltry 52% while the remainder of league averaged approximately 75% from the “charity stripe”. His shooting percentage was such a liability that, in close games, opposing teams adopted a strategy called “Hack-a-Shaq.” This strategy forced Shaq to the free throw line allowing the opposing team to take advantage of his pathetic free throw shooting. One would think that, given this glaring fault, he would welcome tips for improvement. Rick Barry once approached Shaq about trying his underhand style. Shaq's reply was *“I'd rather shoot zero.”*

In Gladwell's podcast, Barry explains why shooting underhanded is not only more natural but produces a softer shot which increases the probability of it going through the hoop. Despite the rewarding mechanics behind the shot and the proven success of Rick Barry as well as others before him, Shaq, Wilt and virtually every other professional and collegiate basketball player refuse to shoot underhanded.

Gladwell gives his two cents about refusing to shoot underhanded by stating: ***“This is doing something dumb even though you’re aware you are doing something dumb.”*** Those prescient words are worth contemplating.

### **Connecting Field Goals and Free Throws to Investing**

There are times in life when human beings are so enamored with appearances, driven by our egos and not wanting to appear different, that we do not properly consider the consequences of our actions. Some might consider “settling” for a field goal to be cowardly. Yet, had the Atlanta Falcons coaches been able to suppress their “fears”, it is very likely they would be Super Bowl LI champions. Taking the risk of playing for the extra four points, offered by a touchdown, cost them dearly.

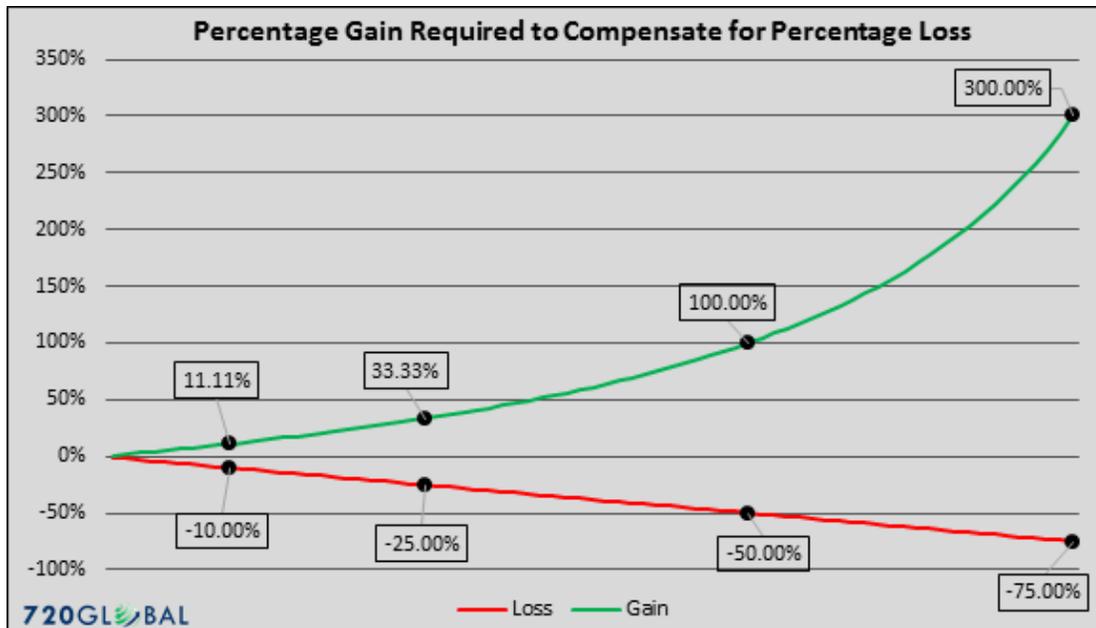
Had Wilt Chamberlain been less sensitive to what other people thought and been willing to shoot underhanded, he would have raised his per game scoring average by three points and would have the highest career scoring average in the NBA (assuming shooting underhanded allowed him to raise his career free throw percentage from 51% to the league average 75%). As it stands, he is number two behind Michael Jordan by 0.05 points per game. Similarly, had Shaquille O’Neal been able to put winning above his ego, he certainly would have lead his teams to more victories and possibly additional championships. Assuming Shaq shot underhanded and made 75% of his free throws instead of 52%, he would have raised his career scoring average by two points per game which would have vaulted him from #21 on the all-time scoring list into the top 10!

Let us consider how Quinn, Barry, Chamberlain and O’Neal reflect the consensus investment perspective. The equity market stands at valuations rarely seen before and ones that have historically been accompanied by tremendous drawdowns. Investors, failing to consider the risks, appear eager to run up the score even further. While “greed is good” as Gordon Gekko said, reaching for nickels in front of a steam roller can be hazardous to your health (and wealth). If investors are staying fully invested because they believe that valuations can stay elevated and Trump’s pro-growth policies can overcome enormous economic and political headwinds that is a highly speculative and very risky posture. However, there are likely a majority who do not understand the magnitude of risk in the markets and instead are following the herd.

If equity market valuations were to normalize, there is compelling precedence for a decline of 50% or more. One could waste precious years riding the market lower and then waiting even longer for the market to recover. One could also take some chips off the table and have those funds available in the future when the market presents a more equitable risk-return tradeoff. Investing is a long-term proposition. Wealth is most effectively compounded when one limits their losses even at the expense of foregoing some gains.

**Wealth is most effectively compounded when one limits their losses even at the expense of foregoing some gains.**

The graph below shows that as percentage losses grow, the percentage gain required to compensate for the respective loss is increasingly larger than the loss. For example, an investor facing a 50% loss, would need to have a 100% gain to break even. Importantly, the graph does not account for the time and opportunity cost that such a process entails to say nothing of the anxiety.



### Summary

*"I made my money by selling too soon"* – Bernard Baruch

There is no doubt that the market can grind higher to more dizzying valuations. However, there is also strong historical evidence that this market will normalize to average valuations. **In the wisdom of Bernard Baruch, there are times when you "make your money" by not losing it. Perhaps more importantly, you preserve the ability to buy when better opportunities present themselves.**

Investors can kick the field goal, shoot underhanded, decrease their exposure to stocks and sit on unrewarding cash balances. Conversely, they can hope that the market continues to do as it has over the past eight years. Given the lesson of the last Super Bowl, is the opportunity cost of forgoing the additional gains worth the price of losing potentially much more? The media, your broker and maybe your friends will tell you to let it ride. Like Shaq, you may decide it is not worth the ridicule to be prudent. Or, like Rick Barry, you may elect to ignore popular opinion knowing excellence and results are what matter most. **Our recommendation is to weigh the benefits and consequences, do your best to ignore peer pressure and play the game to win.**

*720 Global is an investment consultant, specializing in macroeconomic research, valuations, asset allocation, and risk management. Our objective is to provide professional investment managers with unique and relevant information that can be incorporated into their investment process to enhance performance and marketing. We assist our clients in differentiating themselves from the crowd with a focus on value, performance and a clear, lucid assessment of global market and economic dynamics.*

*Coming soon 720 Global will offer “**The Unseen**”, a subscription-based publication similar to what has been offered at no cost over the past year and a half. In fact, what the subscription offers is precisely what we have delivered in the past, substance in style and form that provides unique analysis and meaningful value to discerning investors. Those that have read our work understand the comparative advantage they have gained over the vast majority of investors that solely focus on the obvious. Our readers are prepared for what few see.*

*720 Global research is available for re-branding and customization for distribution to your clients.*

*For more information about our services please contact us at 301.466.1204 or email [info@720global.com](mailto:info@720global.com)*

*©720 Global 2017 All Rights Reserved*

**NOTICE AND DISCLAIMER:** *This material has been prepared by 720 Global, LLC. Opinions expressed herein are subject to change without notification. Any prices or quotations contained herein are indicative screen prices and are for reference only. They do not constitute an offer to buy or sell any securities at any given price. No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness, reliability or appropriateness of the information, methodology and any derived price contained within this material. The securities and related financial instruments described herein may not be eligible for sale in all jurisdictions or to certain categories of investors.*

*Neither 720 Global, LLC nor its directors accept any liability for any loss or damage arising out of the use of all or any part of these materials.*

*All rights reserved. This material is strictly for specified recipients only and may not be reproduced, distributed or forwarded in any manner without the permission of 720 Global, LLC.*