Don't Play the Losers' Game

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"That makes the victory all the sweeter." Those were the words of my best friend who was rubbing salt into my wounds. Jim and I live 2,500 miles apart, but we get together once a year for a golf grudge match. We play for quarters, but the real prize is the "thrill of victory" and the joy of watching the loser suffer the "agony of defeat." In this case, I had just mentioned how much it hurt to lose. But, instead of responding with sympathy, he reveled in his victory and gloated over my defeat.

Even though Jim has a lower handicap than I do, I refuse to take any strokes. So he beats me more often than not which, from a financial perspective, means I'm playing a loser's game. However, my occasional win is exhilarating. I remember my first victory. It ended with me one-up, so I won a quarter. A couple of dozen years later, I still have that quarter. I painted it red and use it to mark my ball for our annual matches. And I guarantee you, he knows what that red quarter represents and he hates it.

If you can't understand why two supposedly nice guys would get such pleasure from crushing another human being, then you are apparently not competitive. Obviously, Jim and I are fierce competitors which, interestingly, is how Nate Silver described Eugene Fama in his book, *The Signal and The Noise*.

Eugene Fama is a 2013 recipient of the Nobel Prize in Economics who is best known for his efficient-market hypothesis. Silver explains that Fama got interested in finance after taking "…a job working for a professor who ran a stock market forecasting service." The job stimulated his competitive juices and he was, early on, thrilled by his ability to "…identify statistical patterns that suggested the stock market was highly predictable and [that] an investor could make a fortune by exploiting them." However, the competitive Fama was crushed when he saw that his strategies didn't "…perform in the real world."

"Equally frustrated and fascinated by the experience," Silver says, "Fama… enrolled in the University of Chicago's Graduate School of Business." In his studies he received *some* consolation for his agonizing inability to beat the market by discovering that nobody else could either. This discovery formed the core of his 1965 thesis in which Silver explains, Fama leaned "…on a mix of statistics and sarcasm to claim that much of the conventional wisdom about how stocks behave was pure baloney."

Unfortunately, the established investment community is only now learning how to separate the baloney from the truth. In what John Morgan in *Moneynews* describes as a "watershed moment", the California Public Employees' Retirement System, the second-largest pension fund in the United States, "…is considering a switch to an all-passive investment portfolio." "It's sort of an exclamation mark on a trend that most are aware of," says Chris McIsaac, of The Vanguard Group.

The trend is toward passive indexing because beating markets is not necessary for the strategy to work. Silver explains why that is important by quoting former trader, Henry Blodget; "…in the stock market the competition is fierce... The average trader…has ample credentials, a high IQ, and a fair amount of experience… How could you beat that?" You can't. And since you're playing for a lot more than quarters, you should avoid the competitive investment game altogether. Because unlike golf, it's a game that Fama discovered nobody wins. And that's why Blodget warns: "Don't Play the Losers' Game."

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