CUP-O-NOMICS

IT'S MORE THAN JUST A GAME

Football exposes some fascinating economic lessons. It reveals strengths and weaknesses in decision making... about money.

Football lessons for personal finance

Football is not just a sport. The pitch is also a laboratory where economists can experiment to their heart's content. And it teaches us important lessons about personal finance. Football tells us a lot about how people deal with winning and losing and about the thinking mistakes we can fall victim to when making financial decisions.

Football lessons

Football isn't just a great sport. It's also a metaphor for life - or, to put it less grandly, for economic life. Football is full of economics lessons. Competition, the influence of management decisions, the value of teamwork and behavioural economic pitfalls such as overconfidence and aversion to losing – all these factors can be found both in economics and on the soccer pitch.

1) Don't let aversion to losing prompt over-safe choices
2) Don't take too much risk after a loss
3) Control your emotions
4) Don't be fooled by coincidence
5) Sometimes it's better to wait than to act
6) Beware of herd behaviour
7) Sometimes you see non-existent patterns

Aversion to losing prompts over-safe choices

Victory is sweet; failure is bitter. Losing has a significantly bigger effect on your mood than winning. Behavioural economics teaches us that losing EUR 100 affects more than twice as strongly as the joy of winning EUR 100. That's why people have a bigger aversion to losing than they rationally should, given the chances of losing. Let's say it's an even contest between two teams, and a tactical substitution would offer a 60% chance of winning and a 40% chance of losing. The odds would say you should do it. The substitution has a positive expected value – over the long term, you would win 6 out of 10 matches instead of drawing 5 times. But because losing weighs more heavily than winning, the balance is actually negative. This was one of the ideas behind the introduction of the three-point system in football (3 points if you win, 1 point each for a draw, 0 points if you lose) over the previous two points only for a win. The three-point system means the attacking team receives an extra reward. By attacking, you can earn an extra two points rather than one because you take more risk and defend less. Two economists (Garicano and Palacios-Huerta, 2005) discovered that this led to fewer draws in the Spanish league. But there was an unexpected result: the goal difference decreased. As soon as a team took the lead, they defended more actively instead of working on their goal difference. After all, they now had two points to lose rather than one! The moral of the story is that aversion to losing is deeply rooted – and that can lead to sub-optimal decisions. Similarly, investing in shares is often reckoned to deliver a higher long-term return than saving with a bank or putting money into bonds. But short-term fluctuations in share prices make people wary, even though it can pay in the longer term to invest part of your assets.

Too much risk after a loss

People are averse to losing, so they avoid risk – unless they are already in a losing position. In that case they may try to make up for the loss by taking more risk than is good for them. On the football pitch we see 'all or nothing' tactics when a team is behind. And that - statistically speaking - does not pay. When a team is behind, managers often substitute a defender with an attacker. That increases the chance of scoring, but of course it also increases the chance of having goals scored against you. It rarely turns out to be a 'golden substitution'. Economists Grund and Gürtler (2005) analysed 17,000 substitutions in the Bundesliga. After an offensive substitution, the other side actually increased their lead in 40% of cases. In just one case in five (21%) did the team in question manage to draw equal. From a statistical standpoint, it was better not to make the substitution. In 35% of cases, unchanged teams managed to draw equal and in just three out of 10 (30%) there were even more goals scored against them. The football lesson for consumers: if you've lost money, you might be more inclined to take a gamble, but buying a lottery ticket magnifies your expected loss. For example, after a dip in the stock

market, there may be a tendency to invest more aggressively than you otherwise would. That may prove worthwhile - but you also run the risk of losing even more of your nest egg.

Emotion clouds wisdom

Football is packed with excitement. The stakes are high and emotions play a major role. But making decisions based purely on emotion leads to 'panic football'. Being too quick to fire managers, substitute attackers or buy expensive strikers is usually no guarantee of success. Sticking to a long-term plan and trusting objective statistics can keep emotions under control and, in the long run, bring better results. Consumers, too, can hold on to their money by mastering their emotions – not making impulse buys, for example. If you let your emotions run away with you, you might find you spend thousands of euros more for a house. Sticking to your original budget and plans can prevent that. Cooling-off periods or consulting third parties can also help.

Don't be fooled by coincidence

''The ball is round so that the game can change direction,'' as the German player and manager Sepp Herberger once said. Extending the metaphor, a successful manager may owe his achievements as much to coincidence as to skill. So a manager's record might not say much about what he's really capable of. A good manager could see his team relegated because of bad luck, while a poor manager could win the trophy with a bit of good luck. Past results offer no guarantees for the future. Similarly, neither house prices nor markets rise forever. If you've made a few investment decisions that have turned out well, it's important not to become overconfident, because they might have owed more to luck than wisdom. Especially in the short term, sentiment – and thus coincidence – play a major role in the markets. Coincidence means you don't have everything under control: you can be lucky, but you can also be unlucky. For homeowners and people saving for their pension, it makes sense to consider a 'Plan B' in case of setbacks. Is this a house we could stay in if my life gets difficult? Could I fill a pension hole by continuing to work longer? Would I also want to keep owning this share if I couldn't sell it in the next 10 years?

Standing still can beat moving

In penalty kicks, goalkeepers tend to dive towards one corner before the ball has been shot. Statistically speaking, however, that is not the best strategy. Some players wait until the keeper dives before choosing the other corner. And some balls go right down the middle. In both cases, it's better for you as a keeper to stand still until the last moment. Or in any case to do that sometimes. It makes it harder for the penalty taker to predict what you're going to do, increases the pressure and makes scoring harder. We can safely assume that keepers want to save the penalty. Why choose the sub-optimal strategy of almost always diving? If keepers do nothing to stop goals, they seem to find them more painful than if they have at least tried to save them (Bar-Eli et al, 2007). Economists call this 'action bias' and it can prove costly. Investors also tend to take too much action in uncertain times. The desire to do something, to buy or sell, is deeply rooted in human nature. But trading a great deal actually appears to reduce returns (Barber & Odean, 2000). When you're negotiating to a buy a house, too, the desire to achieve a result too quickly may also cost you money.

Beware of herd behaviour

The economist Keynes once said: ''Worldly wisdom teaches that it is better for the reputation to fail conventionally than to succeed unconventionally.'' If you don't score with unconventional behaviour, it's a double blow. Maybe that's why many football clubs don't hire psychologists. It's also rare to hear of a football club nominating a good coach from another sport as head coach, even though they might be great at raising a team's game. And what about the place of women in the game? It's inconceivable that women are incapable of being top football managers – yet not a single one has such a job. What can consumers or investors learn from this herd behaviour? Herd behaviour - doing the same as everyone else - in the housing market or stock market can push up prices or send them sliding. The market is not always right. Super-investor Warren Buffett – the second richest man in the world – also advises investors to be greedy when everyone else is fearful, and vice-versa.

Sometimes you see non-existent patterns

People have a tendency to see non-existent patterns. If we've tossed a coin and it's come up heads 10 times, we might expect the 11th time to be tails – even though the chance is still 50%. This so-called 'gambler's fallacy', which suggests past results can influence the future, also occurs in football. A striker who's scored in four consecutive matches is clearly on form, but that's no guarantee that he'll pull it off again in the fifth match. Investors too must not assume that future market movements will be dictated by what's happened in the recent past. Market prices may tend to rise over the long term, but that too offers no guarantee of their movement from one day to the next..

Drawing lessons

Whether it's aversion to losing, risk-seeking, herd behaviour, the gambler's fallacy or action bias, these are all things we find both in football and economics. They can mean football teams lose matches due to luck, just as individuals and investors can lose money due to the volatility in markets.
Armed with lessons from the football pitch, individuals and investors may have a better chance of scoring their chosen goals.

Sources

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Disclaimer

This survey of consumer attitudes and behaviour in relation to football in the countries participating in EURO 2012 was commissioned by ING and conducted by TNS Nipo. In the Netherlands, there was an online survey among 1,043 respondents who were representative of the population based on age, gender and income. In all the other countries, at least 1,000 respondents representative of the internet population in terms of age and gender were surveyed online.

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