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Financial Lessons from March Madness

WEALTH MANAGEMENT
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As a college basketball fan, the NCAA College Basketball Championship held in March adds a little excitement to the end of my winter. The month-long tournament is filled with the suspense and entertainment of 68 teams competing for the annual title. Many people not only watch the tournament but they take time to enter a bracket challenge in which they attempt to predict the winners of the various games.

Key Financial Lessons

So what financial lessons can be learned from the March Madness tournament? The tournament results through time have proven that outcomes are challenging to predict. Upsets are common early and late into the tournament. In 2014, Warren Buffet tantalized us with a $1 billion bracket challenge. One billion was offered to any individual that could accurately predict the winner of every game. Needless to say, Warren's challenge is essentially an impossible endeavor for any fan or expert. In some ways, a basketball game and its outcome are no different from financial markets. Both have talented participants who look for any advantage that they can exploit to win. The participation of skillful participants only adds to the difficulty of predicting outcomes whether it is basketball games or financial markets.

Another component that makes prediction difficult is our own personal biases. Fans completing brackets are known to favor their alma mater or regional teams that they follow. These biases give fans overconfidence in their choices. Investors demonstrate this type of bias when they prefer to invest only in areas in which they are familiar, whether that is in their employer's stock or only in their home country's stock market. Just as this familiarity bias can lead to less than optimal results in predicting the winner of a basketball game, it can lead investors to make poor investment choices in their portfolio.

While I can't help you accurately predict next year's NCAA Tournament winners, I can share two key insights to help you be a better investor.

1. Don't try and predict the future – Niels Bohr had it right when he said "Prediction is very difficult, especially if it's about the future."Don't create a portfolio that is based on your vision for the future, because you are likely to be wrong.Diversify your assets so that your success isn't built solely on your view of what may happen in the coming years.
2. Be aware of your biases – We are all subject to our own personal biases. The more aware you are of them and how they impact your decision-making, the better decisions you will

make. Just because you are familiar with an investment doesn’t make it a better investment. Use logic, rather than emotion, when you create your portfolio.

If you apply these two simple insights, you will have better long-term results as an investor. If it also makes you a better predictor of who will win basketball games, all I ask is that you send me a small percentage of your winnings!

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