

A Euro black swan passes by

by Robert White, CFA

As a casual football fan and long-suffering supporter of the English national team, there was only ever one topic I could write about today. No, not the merits of the latest ECB strategy review (perhaps one for another time) but instead last night's dramatic European Championship Final between Italy and England. Given this was the first time the England men's team has reached a final for 55 years, it's been a pretty memorable tournament, despite them falling short at the final hurdle. Since their last footballing success, we've seen nine US bear markets, ten UK Prime Ministers and both multi-century highs and lows for US 10 year government bond yields¹. In that context, the prospect of victory at a major tournament looks like somewhat of a Black Swan event.

Despite the defeat, one of many bright spots for England has been the redemption of manager Gareth Southgate who, as a player, famously missed a penalty in the crucial semi-final match against Germany in 1996 in the same tournament. While even the best players in the world have missed crucial penalties, that doesn't make the feeling any easier to stomach, and the heartbreak of England's unsuccessful penalty takers was plain to see last night. Unsurprisingly, it seems that nerves played a role on the big stage; only five out of ten penalties were converted in total, well short of the long-term average of 75%².

As is often the case with sport, parallels can be found in markets. Looking at the history of the S&P 500 index since 1927, we find that the index delivered positive monthly returns only 60% of the time, a surprising statistic perhaps for investors that believe equity markets only ever go up. This can create real disappointment for unlucky investors in the remaining 40% of negative months, but thankfully there are many ways to improve your market odds.

Firstly, markets give everyone the opportunity to have as many shots as you like before you become successful, as opposed to footballers who have just one attempt during a shootout. Rather than looking at monthly returns, we find the odds of success improve for investors who hold their investments for longer time periods.

Looking at yearly returns, the odds of a positive return improve to 67%, and extending further to three years improves the odds to an impressive 79%, meaning investors have a better shot at making money over this time frame than the average penalty taker has of scoring.

Secondly, a key advantage for investors is that as well as the odds of winning being in your favour, the payoff when you win is larger too. The average yearly positive price return for the S&P 500 since 1927 was 18.5%, greater than the average negative return of -14.2%, and that's before you even include dividends. This is quite different from penalty shootouts, where misses live long in the memory of players and fans alike, and there is no opportunity to try again.

This tournament has been particularly special due to the presence once again of large crowds of spectators, an encouraging sign that the worst of the pandemic seems to be behind us. With the return of fans, we also saw the return of home advantage, an interesting behavioural phenomenon that benefitted both England and Italy throughout the tournament. As we've written before, behavioural factors also have an important impact on markets, and as active investors, we hope to use these inefficiencies to improve returns for our clients.

Despite the result, fans of both teams should take heart from a thrilling tournament this year, which so nearly didn't happen at all. And while the players cannot retake those crucial penalties, they will have a chance for redemption in 18 months. Here's hoping they won't have to wait another 55 years to reach a final.

1 <https://www.marketwatch.com/story/10-year-treasury-yield-plunged-to-its-lowest-in-234-years-says-deutsche-bank-11596214464>

2 https://instatsport.com/football/article/penalty_research

3 All other data sourced from Bloomberg Finance L.P.



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