How Both Your Fantasy Football Team And Your Investment Portfolio Can Reach The Efficient Frontier

At the beginning of every August, an illness sweeps through the UK (and a lot of other countries too, I suspect).

Like many epidemics, it affects many people - if not you, then most likely someone you know.

Its symptoms are nausea, anxiety, anger, and despair. Last season it was primarily caused by Erling Haaland's record breaking goal-scoring antics. This year, it may be triggered by such factors as Harry Kane moving from Tottenham to Bayern Munich (and thus not being available anymore) or Kylian Mbappe resisting the Saudi millions (billions?) and ending up in the Premier League instead.

Now I am not certain of the scientific name for this epidemic, but I believe it is called "***Ohnomytopfantasyplayerisn'tavailable"*** and to date, there is no effective vaccine.

What Is Fantasy Football?

For those unfamiliar with Fantasy Football (or fantasy sports in general), it's when fans (and non-fans) choose real professional players to be on their "teams", with those fantasy "teams" being matched up against each other each week in various leagues and cups. The results achieved are based on the performance (and therefore points scored) by the real players in the real games they actually play that week.

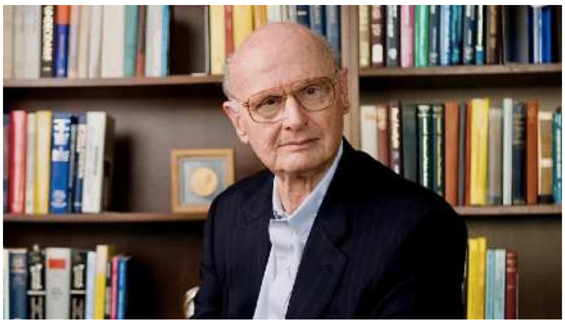
For example, if I have chosen to include the aforementioned Erling Haaland of current champions Manchester City, and he scores a hat-trick in the first game of the season against Burnley, then his actual goals will also translate into a bucketful of points for my fantasy team in week 1.

But What's That Got To Do With Investing?

First developed in 1952 by Nobel Laureate Harry Markowitz, 'The Efficient Frontier' has underpinned and informed portfolio management and asset allocation, as much, if not more than any other intellectual breakthrough in this arena for the last 70 years.

Conceived as part of Modern Portfolio Theory, Markowitz's efficient frontier represents the combination of assets that, at any given point of time, will produce the highest investment returns per unit of risk.

Because Markowitz's effort was so simple and powerful, it attracted a great number of followers and is still widely used today.



It became the central tenet of what might be called the golden age of asset allocation, a decades-long period when financial experts of all flavours and colours constructed portfolios that, at least on paper, promised to outperform less scientific approaches to investing.

Fantasy Football Teams are Like Investment Portfolios

Fantasy football teams are similar to investment portfolios in that you are most likely to pick the best players if you go with the wisdom of the crowd (e.g., average projections) and diversify.

Most projections are public information, so you might wonder whether using crowd projections gains you anything because everybody else has access to public information. However, this is also the case with stocks, and people still consistently perform best over time when they go with the market.

The Efficient Frontier

The ultimate goal is to draft players for your starting lineup who provide the most projected points for the smallest downside risk. This is similar to the notion in investing of 'the efficient frontier', where the goal is to pick funds that have the greatest expected returns for the least risk (where risk is the variability in returns over time).

Conclusion

When building an investment portfolio or fantasy football team, it is best to ;

1. Go with the wisdom of the crowd (using average projections; index funds), and
2. Diversify (pick players on different teams; have different asset classes)

If you have too much money in one asset and that asset falls, you will lose your money.

In other words, don't want to put all of your eggs in one basket.

By owning different asset classes you can limit downside risk without sacrificing much in terms of expected return.

It's the same with your fantasy team. If you draft a lot of players from one team (e.g., Liverpool), you are exposing your fantasy team to considerable risk. You can limit your downside risk by diversifying - Picking players from different teams. That way if Liverpool play poorly in a given week, your whole fantasy team won't be affected.

The goal is to have both an investment portfolio and fantasy football team with the best collection of funds/players and the highest projected returns/points for the least risk.

So, if you're trying to decide whether to choose or pass on Harry Kane, I feel for you. Right now, he seems to be holding out for a move to Germany, and you have absolutely no control over whether Bayern Munich and Tottenham can come to terms, or if he'll stay in the Premier League for another season.

You also don't know how Tesla's next quarter earnings will be, or what Vladimir Putin will do next in the war on Ukraine.

From your perspective, those are elements of chance. But if you do get it right, both your fantasy team and investment portfolio will likely help you get over your case of "***Ohnomytopfantasyplayerisn'tavailable"***.

Here's hoping my fantasy team "A Mirage of Foxes" does slightly better this season than the real Foxes did last season!