Lessons from the FIFA World Cup 2022

We are now down to the last eight teams standing in the 2022 edition of the FIFA World Cup.

World Cup matches are often unpredictable, and the number of shock eliminations in the group stages this year makes for important reflection at such times. Imagine dealing with such surprises on a more frequent basis? That is the reality in the financial world.

This mix of excitement, anxiety, and uncertainty in football matches is not unlike the financial world. No one can perfectly time market moves, nor can we ever expect to make profitable investment decisions all the time.

However, a good investment philosophy is a balanced one; one that takes calculated risks which pay dividends in the long run.

Philosophy & Tactics

There is no absolute "right" way to play the beautiful game. Football teams are set up differently in accordance with their strengths (e.g. available players) and external factors (e.g. opposition's tactics). Successful investment strategies are also based on using strengths and mitigating risks and weaknesses.

Spain popularised the possession-based game, commonly known as the "tiki-taka", while England has traditionally played a more direct style, finding the fastest way to the goal.

Holland used to boast the concept of "total football" with an all-out attacking approach, while in the past, Italy had a reputation for the most stubborn defence.

The truth is that the best teams are never formed by all defenders or all attackers.

So, for investors, you always need to consider:

- How safe do I want my investments be?
- How much liquidity should I hold?
- When is it a good time to take a calculated risk?

The answers lie in having a clear financial objective, such as growing your financial pot, wealth preservation, retirement planning or creating an education fund for your children.

With a clear goal in mind and an astute evaluation of your current life stage, it is then possible to find the right balance in your portfolio between defenders (low risk, low returns) and attackers (more adventurous, with high returns).

Selecting Your Team

International football coaches spend most of their time watching potential players at the club level before calling them up to the national squad, but when you can only pick 26 players, it is not easy to decide between an experienced player or an in-form young player with little or no exposure to the international stage.

Similarly, when it comes to picking an instrument to invest in, there are various companies which have strong business fundamentals and steady growth. There are also opportunities like tech start-ups which might become the next unicorn, representing that statistically rare company returning hundreds or thousand percent profits.

Is there room in your team to make a small speculative bet on that young player who might cause a storm during the world cup and go on to become a global superstar? (Think Kylian Mbappe in 2018.)

Making Substitutions

Quick fact: Only Brazil and Italy have won back-to-back World Cup titles.

It's nearly impossible for a team, even the very best, to win all the time. That is because things are never constant. A deflection can alter the flight of the ball, or the opposing team could make substitutions and change their tactics.

In the unpredictable winds of the financial markets, how do we know when to hold onto our investments and ride the storm, or when do we cut our losses and seek better opportunities?

Making good financial decisions requires time invested in research.

From understanding business fundamentals and identifying economic trends, to detecting nuances in global politics.

Also, being able to tap into the experience of a financial professional can help in making the most informed decisions based on research and insights.

Just as managers scout opposition teams to study their tactics, we need to understand the industries and businesses in which we invest.

Brazil, Argentina, or Germany?

Well, clearly not Germany!

These three teams are (or were) the perennial favourites to win the World Cup. Each of these teams are normally overflowing with incredibly talented players such as Pele, Neymar, Diego Maradona, Lionel Messi, Franz Beckenbauer, Gerd Müller. The list is a long one!

However, it has never been possible for these players to win games single-handedly for their team all the time.

Underdogs often cause upsets if they are able to stifle these star players, as we have seen in this tournament through the spectacular wins of Saudi Arabia, South Korea and Japan against Argentina, Portugal and Germany respectively in the group stages.

Is your portfolio too reliant on one type of investment? Are you taking on too much risk? Do you have a Plan B if your chosen tactic isn't working? Or do you have a well-diversified portfolio that can appropriately withstand specific market changes?

The Mental Game

In many ways, football is a perfect metaphor for financial planning. It's always easy when we are winning.

The challenge is how do we deal with adversity.

- When we are two-goals down, what do we do to turn things around and come out on top?
- If there's a penalty shoot-out what's the best strategy to take? (Don't ask Japan, read this article I published in 2020!)
- If we lose a match, how we learn from it and improve as a team for the next match?

Market movements can be volatile, but controlling the mental game allows you to stay on top in the long run.

Also, no football manager works alone; they build a team around them with experts in various areas like fitness, technical training, nutrition, and psychology.

Neither should you try to navigate the complex markets alone. It’s always better to have people around you who can help you make better decisions and to build a better portfolio. After all, isn’t your goal to win your own personal world cup trophy (financially speaking of course).

May the best team win!