

RECOMMENDED READ: *Moneyball* by Michael Lewis

This book by Michael Lewis delves into the reasons behind the mysterious success of Oakland Athletics, one of the poorest teams in US baseball league. In a game where players are bought at unbelievable prices, where winning or losing is a matter of who's got the bigger financial muscle, Oakland A's go on to make a baseball history with rejected and rookie players. It was a story about building a professional baseball team by taking a quantitative approach. All sports fans around the world know that building a championship sports roster requires a successful mix of many factors: great scouting, superior management, and, arguably the most important factor of all - MONEY. Star players often command higher salary, meaning teams must be willing to sign multi-million-dollar contracts to secure the best talent to put their team in a position to win championships. A major critique within the sports world revolves around how bigger and higher-revenue teams have more money to spend on talented players, allowing them to maintain a significant competitive advantage over smaller teams with less money. But can a team with less money still compete with higher-revenue teams? Is their winning streak a result of random luck OR is there a secret behind their winning streak? These are principal questions that Michael Lewis tries to answer in the book. Like a sleuth, the author investigates the system and the person behind the system, Oakland A's manager Billy Beane.

The author traces the life of Billy Beane from his college days to the time when he becomes the manager of Oakland A's. Billy is one of the most promising guys in his hey days and everyone believed that Billy was the superstar in the making. However, Billy to everyone's surprise doesn't make it. He quits his job and takes up a desk job in the Oakland A's team that is responsible to pick the talent and manage the team. Scouts, as they are called, are people who draft young and promising players into the team. We noticed right away in the book as the seasons roster discussion was to begun that scouts at the time used very subjective measures to rate players. Some measures were really odd, like batting average, how a player looked, or even how a player's girlfriend looked (it might indicate the player's lack of confidence). And it isn't just one scout in the scene who used this factor as customary measures to identify talent; they all did! For decades, this was how the real-life baseball league decided on players. But, as you see in the book, the measures the scouts used were weak indicators of a player's success. As a result, many highly touted players didn't work out, and many shunned players turned out to be very good.

To build his team, Billy Beane countered the traditional scouting practices of baseball organizations. He realises that the methods followed by scouts are subjective, more gut feel based, touchy feely kind of criteria. Even some of the broad-based metrics used to rate players appears vague to Billy. Instead, he sought undervalued players by honing in on the metrics that his data indicated was more significant for scoring runs, including most notably on-base percentage (OBP). With the help of statistically advanced support staff, the A's front office created entirely new metrics. Billy's central goal was to create an offensive line-up of players with a high likelihood of getting on base, therefore possessing a higher likelihood of scoring runs. For one thing, the traditional scouts showed that human judgement is flawed, as they relied on outdated rules of thumb and instinct far more than they relied on statistics. And the statistics that they did use were themselves outdated and generally unreliable. It was the intangible qualities of a player that the scouts were concerned with. Yet this approach introduces an enormous amount of human bias and emotion.

Interestingly, a similar premise can apply to investing. When building a dividend-stock portfolio some investors seek stocks with a high yield, hoping the current dividend will continue, but not necessarily

focusing on fundamentals that can foretell the likelihood of future dividend growth. History shows that stocks with consistent dividend growth have outperformed stocks with stagnant dividends, and even more so for dividend cutters. By analyzing fundamentals and using a disciplined, data-driven, objective approach, investors can find undervalued investments and make better investing choices. In the same way, the players belonging to the financially rich teams are overvalued. Billy systematically chips away the broad metrics and tries to find ways to replicate these overvalued players with the help of new undervalued players, rookies who fit his metric criteria.

So, if you think about the book from a finance perspective, Billy Bean is a classic arbitrage trader who shorts overvalued players and longs undervalued players. In fact, the way in which Billy operates by selling and buying players is like any trading desk operation. He starts off the season with average players and as the season proceeds, he starts evaluating the various team players available to trade, develops aggressive buy sell strategies (of players) and creates a team which has statistically a higher chance to win.

We encourage you to read the book or watch the movie. You'll learn a little bit about how conventional wisdom can be overturned.

