From Opening Bell to Opening Day

Investing and Baseball Are More Similar than You Think

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Cetera® Investment Management LLC

Fresh air, fresh grass, and a fresh start. Baseball's Opening Day is here. It's the unofficial start of spring for baseball fans, who will flood stadiums to take in the scent of the cut grass, grab a hot dog, and ride the energy of the crowd when the home team hits a home run. Baseball is more than a game to its fans: it's a way of life. And it's been that way for a long time: Major League Baseball (MLB) is the oldest professional sports league in North America, with the National League dating back to 1876 and the American League starting in 1901.

With a new baseball season on deck, we'll examine America's national pastime and its similarities with investing and the markets. But don't worry if you're not a season ticketholder: we'll loft it down the middle and over the plate in this commentary—no curve balls or changeups.

"A hot dog at the game beats roast beef at the Ritz."

– Humphrey Bogart
1930s-1950s star of stage and screen

Soaring into the Upper Decks

While baseball cards (and players) have been traded for generations, the New York Stock Exchange (NYSE) has been open for trading considerably longer. The NYSE was founded in 1792,[1] while the first game of baseball was played by the Knickerbocker Base Ball Club of New York in Hoboken, New Jersey, in 1845.[2]

Inflation has also hit baseball. The average price of a ticket has gone from $22.21 in 2006 to $35.93 in 2022.[4] That's a 62% increase over 16 years. Hall-of-Famer Yogi Berra seems to understand inflation when he said, "a nickel ain't worth a dime anymore."

Legendary baseball Hall of Famer Ty Cobb was wealthy, even by today's standards. With a salary of about $20,000 per year, he was the highest-paid player in his time—but that's not how he made his fortune, which at his death was worth an estimated $12 million (roughly $112 million in today's dollars).[3] His secret? He invested in stocks.

The average salary for a Major League Baseball player rose to $4.22 million in 2022,[5] yet many former players file for bankruptcy after retirement. Regardless of income, financial literacy is so important. Having a trusted financial professional can help.

It’s a Long Season

Major League Baseball starts in late March and doesn’t end until early October—and goes as late as early November for teams lucky enough to make it to the World Series. Over the 162 regular season games, players and teams need to adjust to the ebbs and flows of winning streaks, losing streaks, and stretches of inconsistent play. On top of that, they need to deal with the dog days of summer when peak heat and humidity set in. But a consistent approach of minimizing errors, making necessary adjustments, and not losing sight of the big picture during rough stretches separates the good teams from the bad ones.*

The same can be said for investing. The time horizon for most investors is longer than a storied ballplayer’s career, let alone a baseball season, but investors deal with similar swings** of fortune. Like a baseball team looking to snap back from a slump, investors need to look past volatility to see opportunity in the longer-term big picture. For example, from 1980 to 2022, the average intra-year drawdown in the S&P 500 was -14%, and there were two drawdowns of roughly 50% or more over that stretch. However, the stock market was still positive in most years despite such drawdowns, with the S&P 500 batting an average calendar-year return of 12.9% since 1980, putting a positive total return on the board in 35 of those 43 years.

It’s a good perspective to have in the current investing “season,” as 2022 had a large drawdown for stocks and bonds, and negative returns for most major categories, with the S&P 500’s total return at -18.1% and the Bloomberg Aggregate Bond Index’s total return at -13%. It’s a rare occurrence for both stocks and bonds to decline in the same year, a situation made even worse after adjusting for 6.4% inflation. Such bear markets are the equivalent of a hitting slump for baseball players, and having a bear market for two major asset classes in the same year is like a team losing its two best hitters for a month.

But while we might grumble that the good times don’t last forever, we can take heart in knowing that neither do the bad. New bull markets emerge and returns improve, and taking yourself out of the investor lineup the first year of a bull market can prove costly, as we have seen outsized gains the first year of the last six bull markets (Figure 1). Having a good manager can be crucial to helping you navigate—and even find opportunity in—a long and bumpy season.

“In baseball, my theory is to strive for consistency, not to worry about the numbers. If you dwell on statistics, you get shortsighted; if you aim for consistency, the numbers will be there at the end.”

– Tom Seaver
Hall of Fame pitcher

* A $200 million dollar difference in payroll doesn’t hurt, either.
** Pun firmly intended, even if not immediately recognized by editorial staff.

Figure 1: Total Return One-Year After Bear Market Ends

	1-Year Return (%)		
Bull Market Start Date	**Large Cap**	**Mid Cap**	**Small Cap**
August 1982	68.3	73.2	99.1
December 1987	25.5	27.0	33.8
October 1990	36.2	44.1	50.4
October 2002	37.7	52.0	60.9
March 2009	72.8	94.5	93.5
March 2020	83.2	101.1	120.8
Average	**53.9**	**65.3**	**76.4**

Source: Cetera Investment Management, Morningstar, Russell Investments. Returns shown are total returns, which include dividends. Large Cap (Russell 1000 Index), Mid Cap (Russell Mid Cap Index), and Small Cap (Russell 2000 Index).

A Good Manager Goes a Long Way

We can't control what happens on the field or in financial markets, but we can control how we react—even if sometimes only with the help of a good manager to coach us. Baseball managers keep their players focused on the big picture through the many challenges of a long season, and financial professionals can do the same for their clients. Maintaining the right frame of mind is key.

"Baseball is a simple game. If you have good players and if you keep them in the right frame of mind, then the manager is a success."

– Sparky Anderson

Hall of Fame player, coach and manager

Whether it's to calm down a pitcher who gave up three base hits to load the bases or an investor who sees the Dow drop by 1,000 points, the right guidance can keep the focus on the big picture and avoid costly errors, like liquidating accounts any time volatility rears its ugly head. In the grand scheme of things, one inning doesn't matter that much in a baseball season. Nor does one day's worth of performance in the stock market.

What happens between the ears has a huge impact on the outcome of a baseball game, which is why team managers guide players toward minimizing mental errors. Investors, too, can fall prey to several behavioral errors and biases. One of the better-known is herd behavior, when an investor follows the "herd" of other investors into a hot investment near the top of a bubble. Most recently, it happened when meme stocks—stocks that gain popularity among investors through social media—peaked in early 2021.

Another common bias is the familiarity bias, when an investor over-weights their investments toward what they know, such as highly allocating their portfolio to their geographic region or a single stock they're familiar with. Financial professionals add value by guiding their clients away from such missteps that reduce the chances of meeting long-term financial goals.

Positioning Matters

Baseball and investing lend themselves to additional comparisons because of their shared focus on statistics. Baseball fans look at earned run averages and slugging percentages, and investors look at price-to-earnings ratios and dividend yields. Both baseball and investing share the term "batting average," and using statistics to produce a lineup or build a portfolio has other similarities as well. In both cases, you want the finished product to be balanced and accomplish its goals.

To win in baseball, a team needs to score more runs than it gives up, so it needs a strong offense balanced by a strong defense. With investing, a portfolio balanced to pursue individual goals and objectives must have the right amount of offensive power to generate returns while also having enough defense to prevent large losses. This can be done by allocating between stocks and bonds.

> *"Don't worry about your individual numbers. Worry about the team. If the team is successful, each of you will be successful too."*
>
> **– Branch Rickey**
> *Hall of Fame player, owner and innovator*

The focus on offense and defense can change over time. As one gets closer to retirement, more defense is generally needed to protect one's nest egg. Similarly, baseball teams who are nearing the end of a game and poised to win often make defensive substitutions in the final innings and bring in a closing pitcher to protect the lead.

Successful baseball teams rely on having the right overall composition that considers not only individual players' strengths, but also how well they work together and compensate for each other in different situations. For instance, while some players may struggle batting against left-handed pitchers, others may excel when facing them at the plate. Having both on your team increases the likelihood of overall team success. Likewise, a portfolio should be constructed based not only on each investment's merits, but how they correlate with other investments in the portfolio. When investments have low correlations, when one is not performing well there is a higher chance the other is doing better. The idea is that while individual investments may zig and zag in different directions, the portfolio will overall have smoother performance and positive returns over time.

What Inning Are We In?

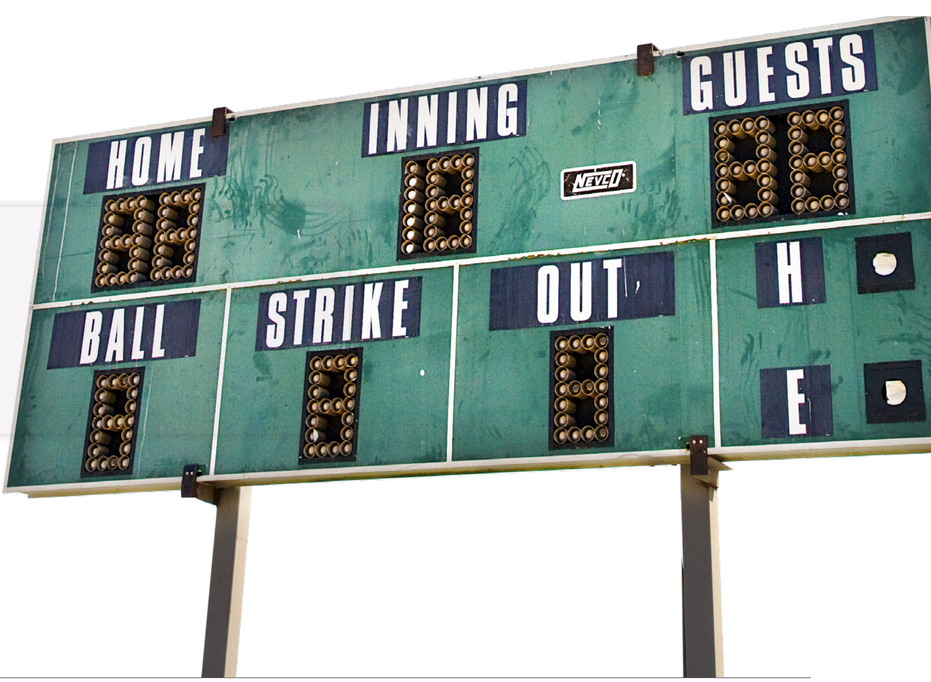
A popular analogy used by economic pundits to discuss where we are in an economic expansion is by designating what inning the expansion is in. Using this analogy, an economy that is early in the expansion would be in the first or second inning, while the final stage of the expansion would place the economy in the eighth or ninth inning. In the post-World War II era, the average length of an economic expansion has been 5.5 years. The prior economic expansion, which ran from the end of the financial crisis in mid-2009 to the onset of the pandemic in early 2020, lasted more than 10 years. Compared to the average "nine-inning" expansion, the prior expansion lasted about 17 innings!***

All economic cycles are unique, and our current expansion over roughly the past three years is a totally different ballgame when compared to the prior decade-long one. For starters, there is a lot more velocity in the pandemic economic recovery: while this expansion is just a little over halfway through the 5.5-year mark, there are already late expansion signals including contracting manufacturing activity, a sharp decline in the Leading Economic Index, as well as a large drop in housing permits and home sales activity. The unemployment rate hit an expansion low of 3.4% in January, which is the lowest level since May 1969. The low in the prior expansion was 3.5%. Unemployment typically reaches a low near the end of an economic expansion.

What's remarkable about this cycle is that it took only 20 months for the unemployment rate to fall from the pandemic recession peak of 14.7% to under 4%. The last cycle had a slower labor market recovery, and it took 103 months for the unemployment rate to fall from the post-financial crisis peak of 10% in 2009 to under 4%. In total, these key economic indicators are signaling the economy may be heading into the eighth or ninth inning. Furthermore, the full impact of the Fed's aggressive rate hikes over the last year haven't been felt, though cracks have recently emerged in the banking sector. For now, the strength of the labor market expansion and the resilience of consumer activity is keeping the economy in the game. We never truly know what inning the economy is in until the game is finally over.

Not all parts of the economy are cycling through the expansion at the same speed. Manufacturing and housing activity are at recessionary levels, while the service economy and the labor market are still expanding at a healthy pace. For the overall economy, which continues to grow despite facing several headwinds, Yogi's observation that it ain't over till it's over seems particularly apt. Things may change over the next year, but the ball is still in play for now.

> *"It ain't over till it's over."*
>
> **– Yogi Berra**
>
> *Hall of Fame player and manager*

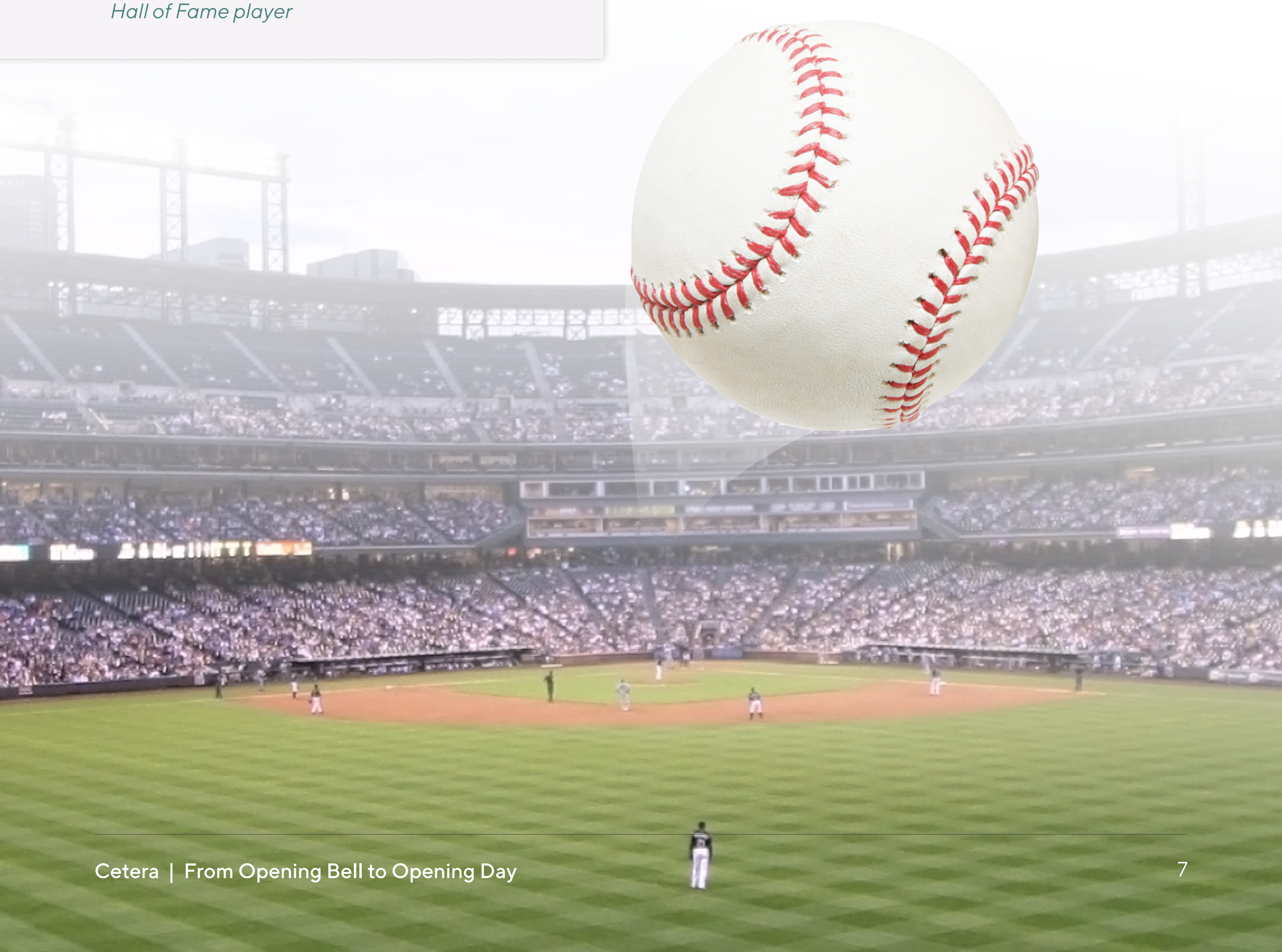


*** Great for the economy! But not so great for a night game...

Bottom of the Ninth

Baseball has long been considered America's national pastime, and for good reason. The game has been around for nearly 200 years, and professional baseball dates to the 1870s. The world has changed by leaps and bounds over this span, but baseball is largely the same. You can find a lot of parallels between baseball and life, as well as with the world of investing. Baseball requires patience, players must deal with ups and downs, consistency is critical, and a balanced lineup between offensive hitting and defensive pitching is the winning formula. A good manager brings it all together in the pursuit of a winning season—and that is the role financial professionals play for their clients. Opening Day is the unofficial start of spring for the millions of baseball fans. We hope you get a chance to catch a ballgame—whether it be Major League or Little League—and enjoy a breath of fresh spring air.

> *"Every strike brings me closer to the next home run."*
>
> **– Babe Ruth**
> *Hall of Fame player*



[1] https://www.nyse.com/history-of-nyse

[2] https://www.nj.gov/nj/about/baseball.html

[3] https://www.mlb.com/news/ty-cobb-amazing-facts-and-stats

[4] https://www.statista.com/statistics/193426/average-ticket-price-in-the-mlb-since-2006/

[5] https://www.espn.com/mlb/story/_/id/35748547/mlb-average-salary-rose-148-record-422m-last-season

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A diversified portfolio does not assure a profit or protect against loss in a declining market.

The S&P 500 is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Bloomberg US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. Eligible bonds must have at least one year until final maturity, but the index holdings have a fluctuating average life of around 8.25 years. This total return index is unhedged and rebalances monthly.

The Russell 1000 index is a stock market index that tracks the top 1,000 stocks by market capitalization in the Russell 3000 Index, which represent about 90% of the total market capitalization of that index.

The Russell 2000 index is comprised of 2000 small-capitalization companies. It is made up of the bottom two-thirds in company size of the Russell 3000 index.

The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe and is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap represents approximately 31% of the total market capitalization of the Russell 1000 companies.

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