# Offense-defense, risk-return:soccer and investing strategies

In investing, the objective of making capital grow can be attained by having an offense portfolio

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Many of you might like soccer and most of you probably know soccer better than me. However, I wanted to explore the game a little bit and see if we get any insights from it about investing.

To win at soccer, we would focus on the objective that at the end of the 90 minutes, we have to have more "net goals" (your goals minus the opponent's gives net goals). This objective can be further divided into two parts, defense and offense. The objective of defense is to not let a single goal be hit against you. The objective of offense is to hit as many goals against the other side as possible.

To accomplish the defensive objective, we have to have a strong goal keeper who always stays within the goal area so that there is little chance of finding the goal post empty. But since it is quite wide, we need at least three other team members nearby to support him.

Similarly, to accomplish the offensive objective, we have to have a strong striking team with at least two members who can attack the goal of the other side. That's six members out of 11 spoken for. Now, out of the remaining five, two have to be on our half most of the time for defense and three can primarily support the offense team. This is a configuration of roughly six members for defense and five for offense

Once the positions have been assigned to rightly trained people, the secondary objective will become clear. To not let the other side hit a goal against us, we should not let them possess the ball and we should not let them come into our half of the field. This means that our offense team should keep possession of the ball and keep it on the other side trying to hit goals only when they get a good opening so that they don't lose possession of the ball.

In soccer, risk can be defined as the chances of getting a goal hit against us, and returns can be defined as the net goals.

Risk is high when the ball is in our half of the field; or the ball is not in our possession; or we don't have enough team members defending the goal in our half of the field. These situations are likely to lead to goals against us.

Returns—net goals—are high when we have fewer goals hit against us and more goals hit against the opposition. If we think about the above situation, we can see that a winning strategy is one of low risk—allow fewer or no goals to be hit against us—and high returns—allow chances of hitting more goals against the other side.

**Two different coins**

Defense reduces the chances of goals being hit against us and offense increases the chances of hitting goals against the other side. Therefore, defense and offense are not two sides of the same coin but rather two different coins altogether. Good defense and bad defense are two sides of the same coin, while good offense and bad offense are two sides of the other coin. Point being that a good defense is not about reducing the chances of returns but actually increasing it. And similarly, for a good offense, one need not take major risks of letting the other side hit goals against us.

If we take this logic and apply it to investing, we can use the following analogy. The objective is to grow capital, i.e., get net returns. A goal against us would be equivalent to loss of capital. A goal hit by us is growth of our invested capital in, say, a particular security. Any goals hit against us, i.e, loss of capital in a particular security, has to be neutralized first by growing capital in another security just to recover our capital, and then, further growth is needed to lead to a net return for us.

**Aiming for returns**

In investing, defense would be to reduce the chances of losing capital and offense would be to increase the chances of getting returns. Bad defense, i.e., higher risk, will not lead to more returns but instead to loss of capital and hence, lower net returns. Carrying out a good offense in no way requires one to be poor at defense. Hence, a high-return strategy and a low-risk strategy are the same.

Taking the analogy further, the objective of the five-member defense is to prevent goals. The objective of not losing capital can be met in

investing by having a portfolio that is diversified and has companies with low financial, business and price risks. Business risk means companies with weak businesses, financial risk is linked to those companies that have weak balance sheets, and price risk comes in the form of companies with overvalued stock prices.

In soccer, the objective of the offense is to hit goals. In investing, the objective of making capital grow significantly can be attained by having an offense portfolio. This portfolio will continuously target above-average quality companies—those that are leaders in their market segment and enjoy sustainable competitive advantages but are still available cheap due to Mr. Market's foibles. The offense portfolio will assemble a diversified portfolio of such companies.

A combined offense and defense portfolio, which is continuously monitored and realigned on a quarterly on annual basis with the objectives, could lead to the winning combination of a goal-hitting defensively offensive portfolio which reduces the likelihood of losing capital. And, at the same time, it enhances the likelihood of multiplying capital.

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