



Epsilon Theory

Notes from the Diamond #1

Always Something New to Learn

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David A. Salem

Twitter: @dsaleminvestor

Email: david.salem@epsilontheory.com

BOX SCORE
Reading Time: 10 minutes

- Yogi Berra quotes: 0 *
- Warren Buffett shout-outs: 0 *
- * = Self-imposed maximum for each note.

- Ted Williams shout-outs: 2 †
- † > Self-imposed minimum of one for each note.

FENWAY PARK										AMERICAN LEAGUE																	
P	1	2	3	4	5	6	7	8	9	10	R	H	E	P	IN	R	P	IN	R								
42	NY	0	2	1	0	0	6	1	0	0	10	12	0	32	KC	F	2	10	45	TEX	3	0	2	2	4	1	2
26	BOS	0	0	2	2	0	4	0	0	3	11	15	4	67	CLE	F	2	4	31	OAK	6	6	2	4	1	2	2
														45	MIN	F	2	4	41	TB	5	5	5	1	2	1	2
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AT BAT BALL STRIKE OUT (H) (E)

“Don’t be afraid to take advice. There’s always something new to learn” — Babe Ruth

Trivia Question 1 of 108 — What baseball Hall of Fame **catcher** earned valedictorian honors while also posting a 75-3 record as a **pitcher** in high school? *Answer furnished in main text. Ditto for an answer to the question, “Why 108?”*



Boston Red Sox pitcher Brandon Workman at bat in the 9th inning of Game 3 of the 2013 World Series

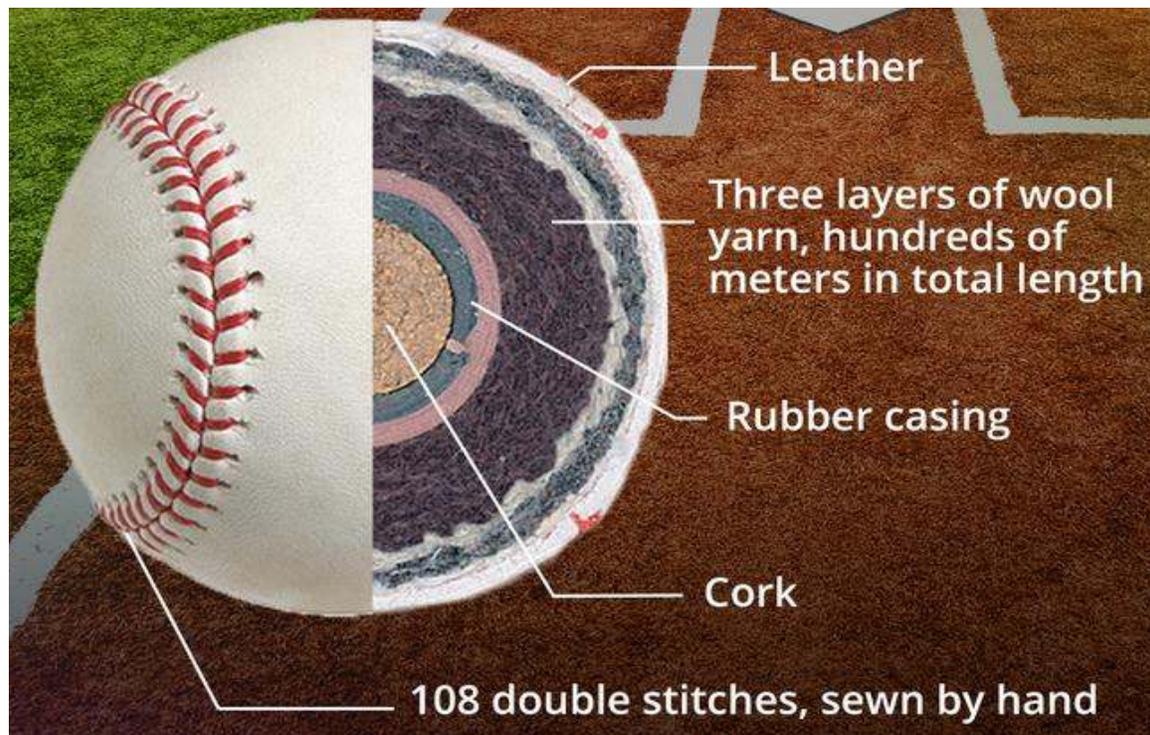
The Wind Up. Big differences in their physical demands aside, playing pro baseball and managing money for a living have much in common — a happy fact for those of us who find both endeavors engrossing and a godsend for money managers whose quarterly letters would be intolerably brief or dull absent baseball-related arcana. Truth be told, the literature exploring parallels between baseball and investing is already so vast that *Epsilon Theory (ET)* faithful might reasonably pose the same question to *ET* management that Red Sox Faithful shouted at their TVs as the worst managerial miscue in living memory was unfolding before their eyes several years ago: “Why?!” No, I’m not referring to Bosox manager Grady Little’s catastrophic act of omission in Game 7 of the 2003 American League Championship Series — acceding to star pitcher Pedro Martinez’s pleas that he continue pitching — but rather to the even dopier decision of Bosox manager John Farrell a decade later: letting pitcher Brandon Workman take his [first-ever major league at-bat](#) with the Sox and Cardinals tied 4-4 in the ninth inning of Game 3 of the 2013 World Series. The Sox lost both games, of course, ending their season in 2003 and adding unnecessary angst to a stress-filled but ultimately triumphant season in 2013. In due course, this series will explore both of the miscues just referenced plus other noteworthy hits, runs and errors in both money management and baseball, all with the aim of elevating readers’ investment games if not also their appreciation of America’s national pastime.¹

Unwelcome Change. I know, I know: in many folks’ eyes, football supplanted baseball as the national pastime long ago — a mutation as regrettable and seemingly irreversible as the shift toward extremism in American politics that Ben Hunt discusses so penetratingly in his multi-part note entitled [Things Fall Apart](#). Unable as I am to trump Ben (pun intended) in political punditry, I’ll generally avoid politics in this series, leaving it to Ben and other *ET* contributors to draw parallels if and as they see fit between the shifting fortunes of professional sports on the one hand and political factions on the other. That said, I can’t resist quoting here the late political journalist Mary McGrory’s lament respecting mutually reinforcing trends she espied in the nation’s political and recreational proclivities long before POTUS 45 declined an invitation to throw out the ceremonial first pitch on Opening Day during his first year in office: “Baseball is what we were,” McGrory observed. “Football is what we’ve become.”

The Pitch. Shifting from wind up to pitch ... *ET* faithful deserve an answer to this important question among others: why should they allocate a portion of their scarcest resource — time — to this note or indeed any of the 108 planned and presumably weekly missives comprising the series hereby commencing? At least three reasons for doing so come to mind. First, Babe Ruth had it right: there’s always something new to learn about any field of human endeavor, including the fun fact that, as the accompanying diagram confirms, baseballs have precisely 108 stitches. Second, Ben Hunt has it right: sometimes the best way to replace bad habits with good ones in a chosen field is to look outside it for wisdom or inspiration — as Ben has done so effectively and entertainingly for us money management types with his [Notes from the Field](#).

¹ Workman’s first and to date only major league at bat went poorly, with a whiff plus two called strikes producing a blindingly quick out. If the Red Sox, for whom Workman has played on-and-off since 2013, make the World Series in 2018, the odds are good that team manager Alex Cora will call on Workman to do some relief pitching. That said, I’d bet my family’s most prized baseball-related possession — a ball inscribed for my children by [Elden Auker](#) — that Cora doesn’t let Workman bat, ever. The last living pitcher to have faced Babe Ruth, Auker (1910 – 2006) showed his mettle early in his 10-year major league career: Ruth was the first batter Auker faced in the pitcher’s big league debut in 1933, striking out on just four pitches.

Third, *ET* contributor *par excellence* Rusty Guinn has it right also: sometimes the best means of elevating one's game is to take it on the road so to speak — to contemplate the origins and soundness of habits and beliefs outside one's chosen profession or political persuasion with an eye toward assessing critically what Rusty refers to as an investor's "priors". We all have 'em, like it or not.



Anatomy of a baseball

No Guarantees. I've put priors in quotes because I myself have never used that term in decades of writing about investing, nor do I expect to use jargon like it often if ever in this series. But Rusty fancies the term; I like and respect Rusty (and Ben); and I've already learned much from Rusty's series entitled [Notes from the Road](#). I won't guarantee that readers will find these *Notes from the Diamond* comparably insightful. But I will pledge that they'll spawn chuckles on occasion, while also avoiding quotes from an overexposed baseball legend who's understandably but unjustly remembered more for his malapropisms than for his central role in notching ten World Series titles for the Evil Empire (a/k/a New York Yankees). After all, why subject readers to *deja vu* from Yogi Berra when the supply of edifying utterances from other baseballers is large and growing?

Superficial Stasis. As skilled as Berra was behind the plate, the high school valedictorian referenced in the trivia question at page 1 was even more so, as well as a gifted philosopher in his own right. Responding to a dinner companion's jibe that the game he played for a living was intolerably slow, Hall of Fame catcher Johnny Bench intoned, "Baseball is a slow game — for slow minds." Rightly understood, investing as distinct from trading also entails prolonged periods of superficial stasis — superficial because effective investors must and do ponder more or less continuously whether newly arriving information necessitates portfolio changes, mindful that it

seldom does. Interestingly, the principle just flagged — favor inaction over action unless the latter is truly vital — is arguably the single most impactful insight spawned by the so-called Sabermetrics Revolution that's transformed pro baseball in recent decades, i.e., the reshaping of what players, managers and — yes — umpires do or don't do on the field based on advanced statistics not readily available before certain information technologies were developed. Among many other insights these *Notes* will explore, Sabermetrics — a term derived from the acronym for Society for American Baseball Research or SABR — has confirmed decisively what baseball cognoscenti have long conjectured: that a base on balls or walk can be as good as a hit. Indeed, for reasons to be explored in future notes, the “big data” revolution that's transformed pro baseball no less than it's transformed financial markets in recent decades has proven that walks can be **better** than hits for teams notching them under certain circumstances.

For the Love of It. What other insights from baseball of potential utility to investors will these *Notes* explore? At the risk of having Ben Hunt consign me to his necessarily large nursery of raccoons — i.e., finance types who pilfer Other People's Money by, among other means, overpromising as habitually as Ted Williams reached base safely² — I'll answer the question just posed while also wrapping up this inaugural note by providing a sneak peek at insights I plan to explore in the 107+ notes to follow. I've added “+” to 107 because, more than five decades after I first laid eyes on Fenway Park's gorgeously green grass, and more than three decades after I sank into money management, I'm as intrigued as ever by both baseball and investing. Whether such intrigue gives me an edge in the latter pursuit is unclear, but I like to think it does, just as I like to think that major leaguers who truly enjoy their work have an edge over those who don't. As in finance, which comprises a regrettably large sub-population of raccoons, professional baseball comprises numerous actors motivated primarily by money. As in finance, it's long been thus in baseball, as perhaps the edgiest player of all time confirmed when rebuking his fellow pros as his long and distinguished playing career (1905 - 1928) was nearing its end. “The great trouble with baseball today,” Ty Cobb scolded, “is that most of the players are in the game for the money and that's all. Not for the love of it, the excitement of it, the thrill of it.”

Coming Attractions. Thrilling or not, the useful insights derivable by applying ongoing advances in baseball strategies and statistics to money management are legion. I'm excited by the prospect of pinpointing many of them in future notes, including these:

- **Why it's not merely useful but essential for professionals to “change their stripes” — a stubbornly enduring no-no in money management whose conscious violators include not a few investment pros as successful in their evolving endeavors as Johnny Bench was in his.** Why did Bench switch from pitching to catching at a crucial point in his development as a player? Because he and those advising him deduced correctly that his foremost physical skill — a strong throwing arm — would be optimally applied as a catcher, thus permitting Bench to use his smarts as well as his physical gifts as frequently as baseball rules permit. We'll explore Bench's metamorphosis and its significance for investment pros in greater detail as this series unfolds.

² Most readers know that Joe DiMaggio holds the record for consecutive games with a hit: 56 in 1941. Some may be unaware of another seemingly unbreakable [record](#), held by the best hitter in baseball in the 1940's or indeed any other epoch: in 1949 Ted Williams reached base safely in an astounding **84** consecutive games.

- **How the metrics used to assess on-field performance condition the behavior of not only players but umpires — a phenomenon with great relevance to client-manager relations in institutional funds management.** As we'll see, the fleet-footed fellow whose most celebrated achievement as a baseballer was his breaking of Ty Cobb's all-time stolen base record understood intuitively what many capital allocators understand dimly if at all. "Show me a guy who's afraid to look bad," said six-time All Star and Hall of Famer Lou Brock, "and I'll show you a guy who can be beaten."



Not afraid to look bad: Lou Brock (#20) in action in 1964

- **What practitioners pursuing excellence must do to maintain an edge as the information revolution advances.** Quite apart from rules changes already implemented that preclude future career stats as stellar as those achieved by past outliers in each domain — e.g., Wes Crawford or Bob Gibson in baseball; Michael Steinhardt or Peter Lynch in money management — the relentless and mutually reinforcing advances of technology and transparency portend continued shrinkage in the pool of dominantly successful practitioners in professional baseball no less than in

professional investing.³ By transparency, I mean the timely collection, compilation and dissemination of essentially all available objective data germane to the aforementioned professions. As many readers are aware, and as future notes will discuss, enhanced transparency as just defined has reduced and will continue undermining the incomes of ballplayers as well as investment pros whose “edges” entail primarily their patrons’ imperfect understanding of their true as distinct from perceived skills. In a baseball context, “patrons” as just used is defined broadly to include team owners and managers as well as fans — all of whom can easily and inexpensively access meaningfully large chunks of the roughly **seven terabytes of data per game** (including but by no means not limited to video bits and bytes) that major league baseball’s **Statcast** system collects via cameras and radar installed in every MLB stadium. That’s a quantum of data equivalent to the contents of 700,000 copies of Webster’s Collegiate Dictionary — and literally millions times the number of data points some of us learned how to record manually on paper scorecards back in the day.

BOSTON RED SOX

Team: N.Y. YANKEES vs BOSTON RED SOX at FENWAY PARK											www.baseballscorecard.com							
Date: 8-18-06 Start Time: 8:02 PM End Time: 12:52 AM Time of Game: 4:45																		
Weather: NO ISSUES WIND WINDY OR TEMP											THE LOWEST 9 INJ GAME IN MLB HISTORY							
Umpires: HP-WOLF 1B-WEST											Scorer: STEVE COMARCA							
* GAME 2 OF DAY-NIGHT DIT											Attendance: SOLD OUT							
#	Player	Pos	1	2	3	4	5	6	7	8	9	10	AB	R	H	RBI	E	
20	K. YOUKILS	1	5	LO5	◇	◇	◇	◇	◇	◇	◇	◇	5	2	2	1	0	
3	M. LORETTA	2	4	K	◇	◇	◇	◇	◇	◇	◇	◇	6	0	3	4	0	
34	D. ORTIZ	3	OH	◇	◇	◇	◇	◇	◇	◇	◇	◇	5	2	2	2	0	
24	M. RAMIREZ	4	4	◇	◇	◇	◇	◇	◇	◇	◇	◇	6	1	4	2	0	
12	E. HINSHKE	5	3	13	◇	◇	◇	◇	◇	◇	◇	◇	3	0	0	0	0	
25	M. LOWELL	6	9	◇	◇	◇	◇	◇	◇	◇	◇	◇	2	0	1	0	0	
22	W. PEJA	7	8	FOH	8	13	K	◇	◇	◇	◇	◇	6	0	0	0	0	
10	C. CRISP	8	2	◇	◇	◇	◇	◇	◇	◇	◇	◇	4	2	1	0	0	
28	D. MIRABELLI	9	6	◇	◇	◇	◇	◇	◇	◇	◇	◇	5	1	1	0	0	
13	A. LORA	10	6	◇	◇	◇	◇	◇	◇	◇	◇	◇	4	3	3	1	0	
													TOTALS					
R	Runs	1 3 1 2 3 0 0 0 1										AB: 46 RBI: 10						
H	Hits	2 3 1 4 3 1 3 0 1										R: 17 E: 0						
M	Errors	0 0 1 0 1 0 0 0 1										H: 17 LOB: 13						
Left on Base																		
Pitcher													Catcher					PB
62	J. LESTER	W-L	IP	H	R	ER	BB	SO	HB	BK	WP	TBF	MIRABELLI					0
51	S. TAVAREE	2 1/3	2	0	0	0	1	2	0	0	0	10						
50	C. HANSEN	1/3	2	3	3	1	0	0	0	0	0	4						
50	M. TIMLIN	2/3	4	4	4	1	0	0	0	0	0	7						

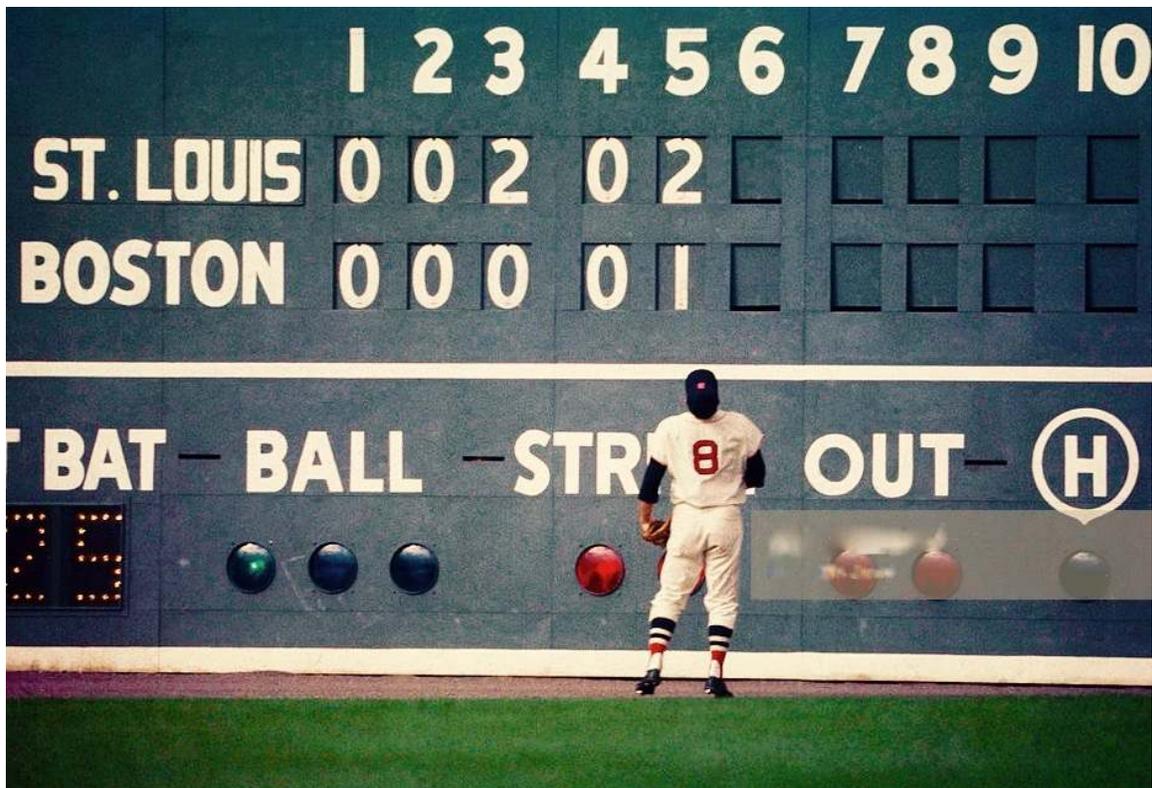
E3 ON WINDUP IN 3RD WENT THROUGH HIS LEGS
 TAVAREE CAME IN TO A-MUD IN 4TH
 HANSEN CAME IN TO CMO IN 7TH
 CABRERA MAKES LORETTA AT HP IN 5TH
 TIMLIN CAME INTO CABRERA IN 7TH
 LOWELL PH FOR HINSHKE IN 7TH

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 PEJA BATTERED BALL IN 7TH
 WIT FOU-UNWITTED IN LOG
 This page may be freely reprinted or photocopied
 http://www.baseballscorecard.com

Manual recording of Red Sox labors vs. Yankees 8/18/2006

³ The all-time career leader in triples with 309, Crawford played before “live era” or post-1910 baseballs made home runs far more frequent than triples. Gibson notched the all-time best single season earned run average (ERA) of 1.12 in 1968, a year before pitching mounds were lowered by a third to their current height of 10 inches. Steinhardt made big bucks for himself and his clients during the first half of his career via block trading methods that were either illegal at the time or have since been outlawed. And Lynch turbocharged his returns via the lawful exploitation of corporate disclosure protocols benefiting big institutions like Fidelity that post-2000 securities law reforms have rendered nugatory, including especially **Regulation FD**.

Continuous Improvement. Imagine if fiduciaries could evaluate investment pros as quickly, cheaply and thoroughly as baseball managements can evaluate players' every movement (or non-movement) using Statcast. I'm unsure such enhanced scrutiny would produce uniformly better returns, but I'm sure that it would alter managers' as well as clients' behaviors, just as such scrutiny has altered how pro baseball gets played, who gets to play it, and for how much. I'm sure too that even if investment pros' labors remain as crudely understood as pro baseballers' were before Statcast came along, future technological advances will compel investment pros seeking sustained excellence to change their stripes on a regular if not continuous basis. How do I square the assertion just made with Ben's championing of repeatable processes in [Things Fall Apart](#)? I'm not sure I can, or want to, his and Rusty's invitation to contribute to *ET* being rooted in their laudable desire to foster diverse viewpoints under *ET*'s banner. By my lights, choiceworthy processes in money management display the same cardinal virtue that my all-time favorite player displayed when fielding caroms off Fenway's fabled Green Monster: such processes are less "repeatable" or static than they are adaptive and ever-changing. The player in question, of course, was Carl Yazstremski, a Long Island native whose exceptional work ethic arguably made Puritan New England (a/k/a Red Sox Nation) a fitter venue for his sporting labors than his original home turf. "I loved the game," Yaz said after his 23-year career ended in 1983. "But I never had any fun. All hard work, all the time."

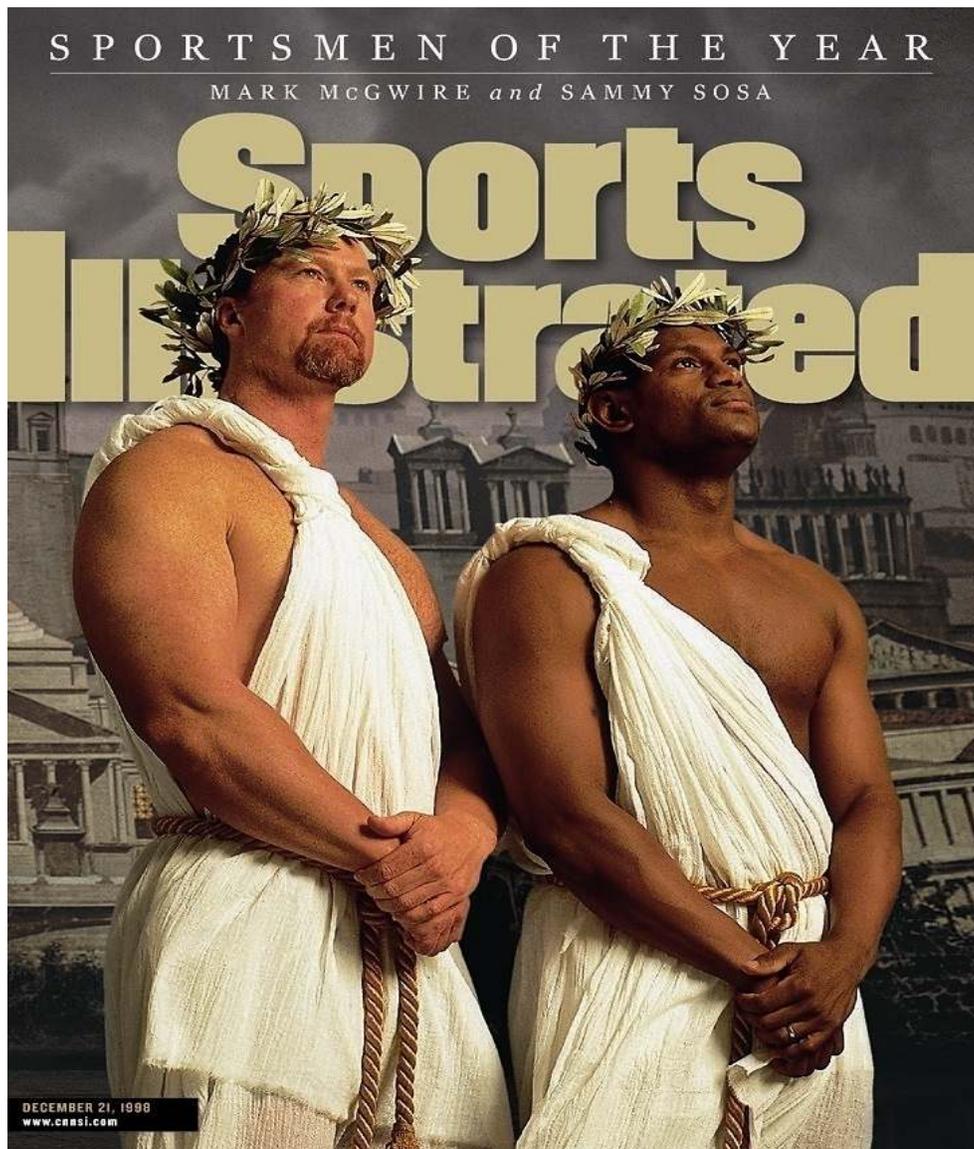


Carl Yazstremski awaiting a carom off Fenway's Green Monster in the 1967 World Series

Ernie Had It Right. Like the best opening frame this Bosox fan has ever witnessed — a 50-minute [masterpiece](#) in which the Bosox scored 14 runs on 13 hits against the visiting Florida Marlins at Fenway in June 2003 — this initial installment of *Notes from the Diamond* has developed

proportions more expansive than might reasonably have been expected. As noted at page 1, readers can expect future installments to be shorter — but no less replete with pearls of wisdom from wizards of the diamond, including a gentleman who changed his stripes not once *qua* young Johnny Bench but multiple times en route to his own induction at Cooperstown. Nicknamed “Mr. Sunshine” for his upbeat disposition, Ernie Banks (1931 - 2015) is forever known for his catchphrase, “It’s a beautiful day for a ballgame ... Let’s play two”. With so many useful parallels between baseball and investing to be drawn — and with so many members of *ET* Nation including yours truly wondering what comes next for the business of investing and their own roles within it — I’m keener than ever to craft the next note in this series ... and the next. Let’s play 108, why don’t we?

On deck: What baseball’s steroid era and private equity’s salad days have in common



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