

Superbowl LIII and Relative Strength



The final round of the 2018 playoffs concluded with the New England Patriots and Los Angeles Rams emerging as the AFC and NFC Champions, respectively. The Patriots and the Rams will now faceoff in Super Bowl LIII on February 3rd in Atlanta. The game will be played 17 years to the day since Tom Brady's first Super Bowl appearance in which he also faced the Rams, who at that time played in St. Louis in Super Bowl XXXVI. In the intervening years since Super Bowl XXXVI, Brady has appeared in seven other Super Bowls and holds the all-time NFL record for most Super Bowl wins by a quarterback with five.

The Patriots advancing to Super Bowl LIII, means that the team and Tom Brady will have appeared in nine of the last 18 Super Bowls, a truly amazing statistic when we consider that, if they were chosen at random, a team in the NFL would have a 6.25% (1/16) chance of playing in the Super Bowl in any given year. Super Bowl LIII will also be the Patriot's third consecutive Super Bowl appearance, a feat which no other team has accomplished since the Buffalo Bills made four consecutive appearances (1990 – 1993).

Brady and the Patriots are not the only team that have made it to the Super Bowl with surprising frequency. Combined, three quarterbacks - Brady, Peyton Manning, and Ben Roethlisberger - and four teams have represented in the AFC in 16 out of the last 18 Super Bowls. Manning's appearances were, of course, split between the Indianapolis Colts and Denver Broncos.

Super Bowl Appearances Over the Last 18 Years

SUPERBOWL	AFC		NFC	
	TEAM	QB	TEAM	QB
XXXVI	New England Patriots	Tom Brady	St. Louis Rams	Kurt Warner
XXXVII	Oakland Raiders	Rich Gannon	Tampa Bay Buccaneers	Brad Johnson
XXXVIII	New England Patriots	Tom Brady	Carolina Panthers	Jake Delhomme
XXXIX	New England Patriots	Tom Brady	Philadelphia Eagles	Donovan McNabb
XL	Pittsburgh Steelers	Ben Roethlisberger	Seattle Seahawks	Matt Hassleback
XLI	Indianapolis Colts	Peyton Manning	Chicago Bears	Rex Grossman
XLII	New England Patriots	Tom Brady	New York Giants	Eli Manning
XLIII	Pittsburgh Steelers	Ben Roethlisberger	Arizona Cardinals	Kurt Warner
XLIV	Indianapolis Colts	Peyton Manning	New Orleans Saints	Drew Brees
XLV	Pittsburgh Steelers	Ben Roethlisberger	Green Bay Packers	Aaron Rodgers
XLVI	New England Patriots	Tom Brady	New York Giants	Eli Manning
XLVII	Baltimore Ravens	Joe Flacco	San Francisco 49ers	Colin Kaepernick
XLVIII	Denver Broncos	Peyton Manning	Seattle Seahawks	Russell Wilson
XLIX	New England Patriots	Tom Brady	Seattle Seahawks	Russell Wilson
50	Denver Broncos	Peyton Manning	Carolina Panthers	Cam Newton
LI	New England Patriots	Tom Brady	Atlanta Falcons	Matt Ryan
LII	New England Patriots	Tom Brady	Philadelphia Eagles	Nick Foles
LIII	New England Patriots	Tom Brady	Los Angeles Rams	Jared Goff



While there has undoubtedly been more parity in the NFC, there have certainly been teams and quarterbacks that have separated themselves from their competition. For example, since his rookie season in 2012, Russell Wilson has led the Seattle Seahawks to the Super Bowl twice and fell just short of a third consecutive appearance when the Seahawks were defeated by the Carolina Panthers in the NFC Championship game.

We often discuss sports and sports rankings as a great way to understand relative strength and to explain it to clients and the trend of a select few teams (and quarterbacks) dominating the AFC Super Bowl appearances is a great case in point. If at the beginning of the NFL season you were asked which team(s) you thought would make it to the playoffs and ultimately the Super Bowl, the first piece of information you would factor into your choice would be the outcome of the previous season – all else being equal, we generally expect players and teams that performed well last year to do well this year. And looking at the distribution of AFC Super Bowl appearances, betting on teams that had historically performed well has been a sound strategy over the last 18 years.

This is the same concept that underlies relative strength rankings. Every day that the market is open is essentially a giant competition amongst thousands of stocks and funds. However, unlike sports teams which compete against each one at a time, each security in the market is simultaneously competing against every other security market. This provides us with approximately 250 head-to-head competitions each year which can be used to evaluate and rank these assets.

Each day, we record the score for each security, i.e. price, and then compare the relative performance of each by plotting the results on a relative strength chart. Over the course of many games, a picture begins to develop of which teams, i.e. securities, are consistently outperforming the field, i.e., exhibiting positive relative strength. Just as with sports teams, we expect securities with positive relative strength to continue to outperform, until we begin to see evidence of that a change in trend is underway.

In the NFL, there is no guarantee that a team that advanced to the Super Bowl last year will repeat that performance next year, however, over the last 18 years we have seen a handful of teams and players, especially AFC teams, accomplish that feat with relatively high frequency. Similarly, there is no guarantee that relative strength-based investment strategies will continuously provide superior results. However, like selecting football teams with strong track records, we believe that selecting investments with positive relative strength will allow us to outperform the field over the long term.

Please contact us to learn more about rules-based disciplined investing and how it can help your clients. The Bluegrass Asset Management team can be reached at 502-429-0196, ask for John Casconi, Rodger McAlister or Jennifer Grilliot.