

The Roger Federer Mindset – Small Wins Can Add Up to Long-Term Success

Razor-thin short-term advantages can compound into something extraordinary over time.

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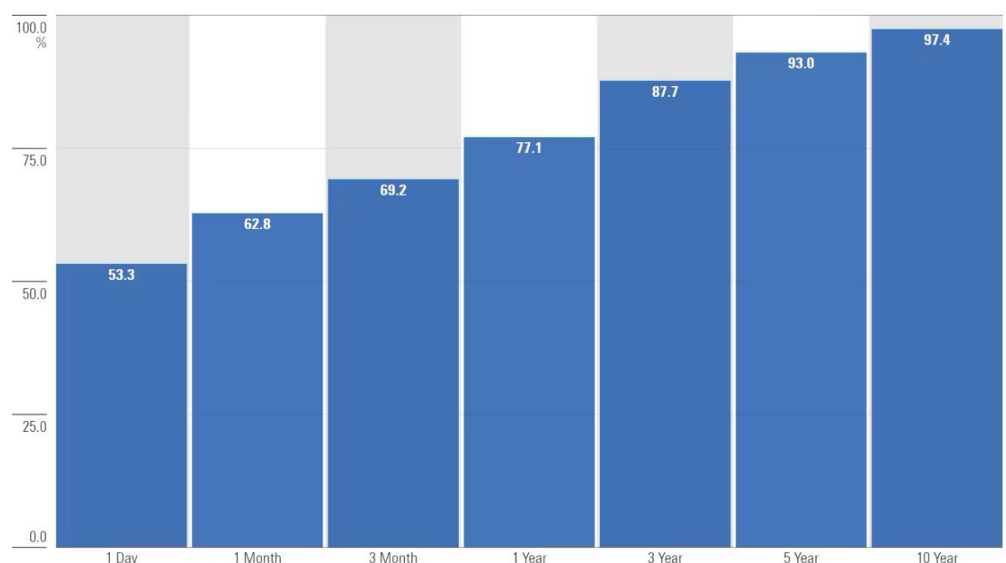
Roger Federer's recent commencement address at Dartmouth University offered a powerful lesson that extends far beyond the tennis court and into the world of investing. Reflecting on his remarkable career, which included 1,526 singles matches and an extraordinary win rate of nearly 80%, he posed a thought-provoking question to the graduates:

"What percentage of the points do you think I won in those matches?"
The answer? 54%.

Despite being widely regarded as one of the greatest tennis players of all time, Federer won just more than half the points available to him in his career. His success didn't come from overwhelming his opponents point by point; instead, it came from a small, consistent edge that compounded into extraordinary achievements over time. This lesson holds a striking parallel to investing.

Much like Federer's tennis matches, day-to-day market movements are unpredictable. On any given day, the market could rise or fall, but the odds are only slightly tilted towards positive returns, with shares showing a positive return about 53% of the time. While a 53% edge may seem small, over time, these small advantages can lead to meaningful success.

Probability of positive US share returns by period



Source: First Trust, Bloomberg. Time period: 1937-2023. Data represents the probability of positive US large-cap stock returns by different time periods. Past performance is no guarantee of future results.

Taking advantage of these small wins seems simple enough, but it requires discipline - something Federer himself admitted to struggling with in the early stages of his career. As he explained:

"The wake-up call came early in my career when an opponent at the Italian Open publicly questioned my mental discipline. He said, 'Roger will be the favorite for the first two hours, then I'll be the favorite after that.'"

Federer struggled to maintain consistency throughout a match—starting fast and fading as fatigue set in. Similarly, in investing, the true test comes not in bull markets, but in the moments when the market turns against you. Federer's solution was to focus on improving his process—doing more cardio to stay sharp later in matches and analysing data to exploit his opponent's weaknesses better. He stayed committed to this process throughout his career, and it turned him into one of the greatest players of all time.

The question then becomes: Is there a similar strategy that investors can implement, which compounds over time and potentially provides that slight edge? The answer – absolutely.

Core tactic #1: Costs Matter

The only guarantee in the investment business is that you will keep more if you spend less.

John Bogle referred to this as the *Cost Matters Hypothesis*. It's a simple concept: the costs associated with investing—such as fund, transaction, and management fees—are directly deducted from your returns.

Prudent investors should consider these costs when selecting investments. Does this mean you should only invest in low-fee funds? Not necessarily. The key is that high-fee funds must deliver significantly better performance to justify their higher costs.

Core tactic #2: Manager Selection

Pairing cost discipline with diligent manager selection is crucial.

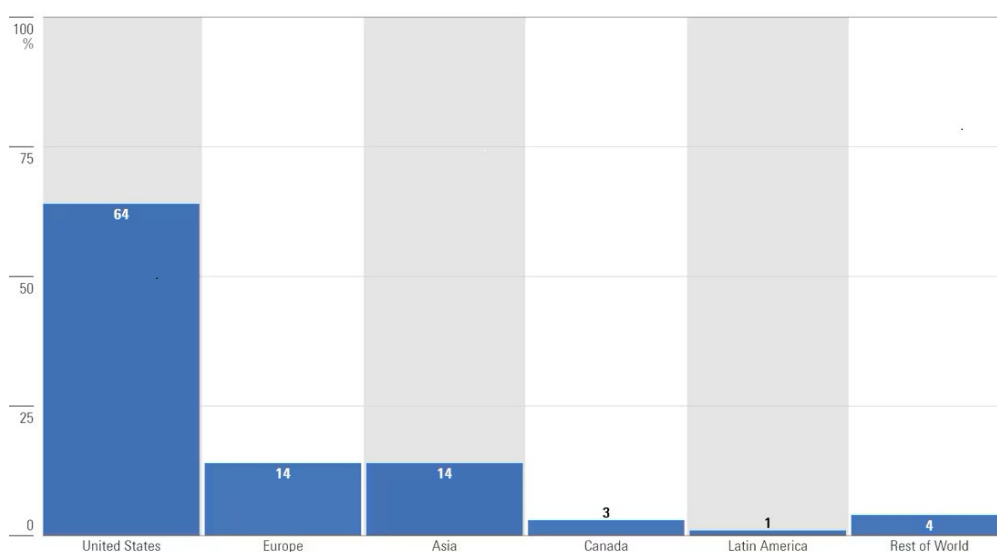
Like Federer, investment strategies and asset classes will inevitably experience periods of short-term underperformance. During these times, some investors may be tempted to throw in the towel and look for opportunities elsewhere. However, a disciplined approach involves understanding long-term trends and using periods of pessimism as opportunities to allocate to underperforming managers or asset classes.

Core tactic #3: Global Diversification

Diversifying globally helps mitigate blind spots. The next 10 years are likely to be very different from the past decade, which underscores the importance of diversifying across markets.

Given that the US accounts for about 60% of the world's market capitalisation, it should certainly make up a significant portion of any portfolio. However, an exclusive focus on US shares can result in over-concentration.

Percentage of total world equity market



Source: Cleonomics. Data as of October 2024. For illustrative purposes only.

To achieve true diversification, investors should aim to “fish where the fish are,” meaning they shouldn’t limit themselves to one region or market. That’s why thinking globally is crucial when building an investment portfolio.

Core tactic #4: Rebalancing

Burton Malkiel, author of *A Random Walk Down Wall Street*, once wrote:

“We all wish some genie could tell us when the stock market tops out so we could sell. Rebalancing is the closest technique available to do that.”

Rebalancing can help investors manage risk and take advantage of market fluctuations. For example, a hypothetical portfolio consisting of 60% global equities and 40% bonds, rebalanced annually over the past 30 years, would have outperformed a simple buy-and-hold strategy. The rebalanced portfolio not only delivered higher returns but also did so with less volatility, as it automatically captures gains from overperforming assets while buying underperforming ones.

This approach works because it forces investors to sell high and buy low—an action that is often easier said than done. Without rebalancing, investors risk becoming overexposed to one asset

class, especially after a strong performance and miss the opportunity to lock in profits when market conditions change.

Building more resilient portfolios

The goal is for each building block to build upon the last, creating a more disciplined and thoughtful investment process. Ultimately, this should lead to more resilient portfolios and potentially more durable investment outcomes.

While no process can guarantee perfection, this approach fosters discipline—an essential ingredient for success in investing. By staying committed to these principles, investors can unlock the small, consistent edge that, when compounded over time, leads to meaningful success.

Federer went on to add, *“Most of the time, it’s not about having a gift, it’s about having grit.”*

In any walk of life, there are ways to take advantage of compounding over time—an investment process should be no different.

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