

Two beautiful games

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Right now, for those of us bleary-eyed football fans following England's campaign, the World Cup is a fantastic – if tiring – sporting spectacle. For most, it is the joy of the sport alone that is compelling – with many of us (your author included) staying up to the small hours to watch a gripping England epic as they prevailed over Mexico – whilst for some, the prospect of a little flutter adds some extra spice to the excitement. As of last week, Polymarket had an up-to-the-minute prediction market on the winner of the tournament, with France the favourite at 19%, Argentina at 15%, Spain at 14%, and good old England in a respectable 4th, with an 11% chance of winning.¹ Much (much) further down the list were the long-shots, the have-a-go heroes whom a fan of the underdog would love to back: Scotland, Curacao, Algeria, Uzbekistan and Saudi Arabia among others, who were all on odds of less than 1% to win and have since fallen at earlier hurdles in the competition.²

Armed with these probabilities, it is interesting to contrast the behaviour of a typical World Cup punter to the average stock market participant.

For example: the betting markets at that point were offering a massive return opportunity on a Scottish World Cup win; a punter could have bet \$10,000 on Polymarket and walked away with \$6.7m if they had won the tournament. Instinctively, however, we all understood that the other side of this bet was overwhelming probability: no offense to the wonderful Tartan Army, but the chance that Scotland actually won was vanishingly small. A cursory look at history informed the interested gambler that Scotland had never progressed from the first round of the World Cup, had only won 4 of the 23 matches they had ever played, and had failed to qualify for a World Cup for 5 straight tournaments prior to this one. Many wondered whether 2026 could be their year. Maybe. But, as events have now confirmed, it was always extremely unlikely.

However, when it comes to investing, this mindfulness about probability of outcome seems to fall out of the window, with a pure focus instead simply on the potential for that massive payday -- with limited appreciation for the low odds of that outcome.

When you pay a very high price for a company, typically measured as a high price to earnings, embedded in that price are lofty expectations about the future growth of that company, and its ability to retain its competitive advantages long into the future. When investors look at these companies, their minds often cast back to the paydays produced by the historical winners: the Googles, Amazons, and Walmarts of the world. However, reality is much less kind to the average company, and the probabilities that a company with above-average profit growth is able to keep this growth rate for five years or more are, in fact, vanishingly small.³ Buying these companies at such inflated values, whilst pointing to the Amazon riches, is akin to betting heavily on Scotland whilst pointing to Leicester City's remarkable Premier League win. Sure, it happens sometimes, and some lucky punters get rich: but history is very much against you.

If the high-growth business you have bought instead grows at a more normal rate, as history suggests is likely, the market will realise its high prices are not justified and sell it, with investors resultingly nursing losses. Novo Nordisk and EssilorLuxottica, both fine companies, are recent examples, where – even as they continued to grow – they fell short of the sky-high expectations baked into their share prices. Investors in each, as a result, have subsequently seen the value of their investments plummet by nearly 50%.⁴

¹ Polymarket as at 25th June 2026

² Polymarket as at 25th June 2026

³ Chan, Louis K. C., Jason Karceski, and Josef Lakonishok (2003) "The Level and Persistence of Growth Rates." Journal of Finance; Verdard Research, Persistence and Predictability of Growth, February 2026

⁴ FT Adviser, 'Novo Nordisk's shares tumble...', Wall Street Journal 'EssilorLuxottica Shares Fall...'

Contrast that with buying well-run, conservatively financed business at attractively low prices: we would argue that this is more like placing an advantaged bet on England to win the World Cup.

By paying a reasonable or low price for those businesses, we stack the weight of probability in our favour: what is embedded in these prices are low expectations for the future, and low expectations are much easier to deliver – or, dare we say it, beat – than unrealistically high ones. Of course, we are not going to make a lottery-ticket style outcome if we are right– but we are hugely increasing the chance that we are right.

In this instance, looking at a long-run history actually puts the odds in our favour. We are not making heroic assumptions that profits are going to grow tenfold, but instead simply looking at what a company has been able to achieve over a long-time horizon – ten years or more – and using that as the base case for our assumptions about the future. If today's market price is very low compared to what we think these normalised earnings are, and if the company is of a strong enough quality, then we are very likely being offered a bargain. By using history as our guide –in both avoiding the high-flyers, and buying the lowly valued – we are using the weight of probability to our advantage.

Again, in the world of sports betting, this is something that people intuitively understand. Placing the same \$10,000 bet on an England victory will only yield total winnings of \$91,809 if it comes home, a pittance compared with the \$6.7m haul if Scotland had won.⁵ However, every punter knows that you are much more likely to win if you bet on England than Scotland, because the history bears this out: England have reached multiple late stages of the World Cup, including a semi-final in 2018 and a quarter-final in 2022, and reached the final of the Euro 2024 and Euro 2020 against most of their toughest current opponents; in their history of World Cup finals games, they have won a reasonable 44%.⁶ The lineup is very strong, with a striker who is strongly favoured to win the Golden Boot at the tournament, and the market value of the England squad is ranked second only to France. So, with all due respect to Scotland, the historical record defends the fact that it is England who have a much higher probability of winning – and it is this probability that is reflected in betting odds, a dynamic that punters completely understand.

As value investors, we look for those mispriced bets in the stock market: imagine if a bookie offered odds of 10:1 on all of France, Spain, Argentina and England. Clearly, the probability that one of these teams wins is very high, and so buying a portfolio of all of these underpriced bets hugely increases your chances of turning a profit. Whilst it was possible that Scotland might have won, and you could have lost everything whilst some lucky gambler bought a yacht, over the long run the probabilities are supported by history – and will bear themselves out in the results.

As in football, so in investing: buying sound businesses at low prices is a sensible, proven method to earn an outsized return over time, shunning the huge, promised payouts of the long-shot bets, instead being consistently mindful not only of the payday –but of its probability. With history as our guide, and with the odds in our favour, we feel confident that our value investing approach will stand us in good stead.

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⁵ Redwheel, as at 25th June 2026

⁶ Europorter, accessed June 25th 2026

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