# Sunk Costs, Todd Frazier, and Moving On - Transcript

**Tom:** Welcome to the Mullooly Asset Management Podcast. This is episode number 257. Thanks for tuning in. I'm your host Tom Mullooly, along here with my co-host, Brendan Mullooly.

**Brendan:** I think we actually want to talk, self-servingly, about our beloved Mets today.

**Tom:** Good topic always, and plenty of ... content rich.

**Brendan:** Yeah. So we're going to start with a little story about the Mets that we promise has a point as it pertains to your investments or your finances.

**Tom:** Got to hang in there with this though because it does have a point.

**Brendan:** So we were talking the other day about how the Mets are going to have to make some decisions when a number of their players begin to return from the disabled list, or injured list, whatever they're calling it nowadays. But they're going to have too many players, not enough positions to play them in, and we were just kicking around who should and should not receive playing time anymore.

The player that we all agreed who should be on the chopping block is Todd Frazier, New Jersey local. So it hurts to hate on the Todd Father as they call him sometimes, but, based upon merit and the other options that are going to be available to the team, it really seems like he's taking up a roster spot that could be better served by another player. But the Mets will not do that.

**Tom:** They just won't do that and it's a real shame, because while he did provide some value last year, I think if you just look at the surface level stats, I think he hit 16 home runs ... He was hurt. Of course, first time on the Mets so first time on the disabled list. Frazier's been one of those guys where it's a strike out or a home run. We know the outcomes. It's either or, there's usually nothing in between.

So he's got a low batting average, usually shows up to play every day, he's got those intangibles that they always talk about. He's a great guy in the club house. I'm not really sure what that means, but he does hit for power. He's a strong guy.

**Brendan:** Well the Mets knew what they were getting when they signed up for this guy. They gave him a two year contract but-

**Tom:** For 20 million dollars.

**Brendan:** Right, and so that ... I think that that's the biggest point. It's not really about his production. I mean you can compare him against the other options available. It seems like he'll be riding the pine, but they even have better options available to be the backup third baseman or first baseman. But they'll probably keep Todd Frazier on the roster because they owe him so much money.

The Wilpons, the owners of the New York Mets, seem to make moves based upon their fear of the tabloid pages in New York City.

**Tom:** I was really amazed ... I read this maybe a year ago ... that, according to Jeff Wilpon ... that a good in his world is defined as not only a Met win, but a Yankee loss.

**Brendan:** Right, losers mentally for sure. They are so concerned about optics, back to the Todd Frazier question. If he's no longer the best player available to fill up a roster spot, they should be willing to just move on from him, and if no other team wants to make a deal for him, then they should cut him and he'll probably end up on somebody else's team. He's not that bad.

**Tom:** No.

**Brendan:** He'll end up on someone else's team with the Mets paying his salary for the rest of the year, but the Wilpons can't stomach the shame of throwing in the towel, or admitting that there's not a spot for this guy on the roster. They cannot deal with that. What if we cut him and God forbid the Yankees pick him up, and then he goes on a hot streak for their team?

**Tom:** Hey, it has happened before. I mean Darrell Strawberry was brought in, hit home runs for the Yankees. Dwight Gooden came in, threw a no hitter for the Yankees.

**Brendan:** Right. We're so ... the fans and the ownership are overly concerned with 'what if' scenarios, when you can only make a roster decision based upon your team. And if somebody doesn't fit on your team, and then they go somewhere else and do something different than what you expected them to do, then too bad.

There is literally no way that you could plan for that. And so short of being able to predict the future, you've got to make decisions that make sense today, and I'm not so sure that optics or fear over what could happen next is a way to manage a roster.

**Tom:** The winter before last, so a year and a half ago from the time we're recording this, the previous general manager had doled out 88 million dollars of guaranteed contracts, or guaranteed income in contracts. He signed Yoenis Cespedes to a deal. He signed Jay Bruce to a deal. He signed Todd Frazier to a deal. There were some other contracts that he gave as well. Not too many of these have really worked out.

He wound up losing his job, but now the problem is they've got to move on from some of these players, and they just can't seem to pull the trigger. The new general manager, coincidentally, was the agent for a lot of these contracts that were signed. And so now he's in a really unique position in, “Hey, I brought this player to the Mets. We got a good contract for the player, and, on paper, for the team, but now we have to cut our losses.” The situation has changed.

That happens. It happens with investments. It happens with ... you can consider these player contracts investments. Situations and conditions change over time. Players get injured, things happen, there's another alternative out there. You have to keep your eyes open to this.

**Tom:** So this leads to our segue. How does all of this tie back into your investment portfolio?

**Brendan:** It could be investments in terms of things that you own in your account, or it could be types of investments that had an initial cost affiliated with them. But what we're talking about here are some costs, so things that have already occurred, we cannot change ... They're in the past.

**Tom:** You can't get that money back.

**Brendan:** No. All we can do is position ourselves for the future in the best way possible that makes sense for our situation right now.

**Tom:** Here's a good example. How many times have you and I sat down with clients who own shares of ... the most obvious example I can think of right now, General Electric. We can't sell General Electric. I got these shares from my dad. He got them from his dad. We've owned this company stock for 44 years. We can't throw in the towel now. What do we do?

**Brendan:** I don't like to think of things in terms of the word can't. You can. You don't want to, so you either have to deal with the ramifications of that, or get over it.

**Tom:** Yeah. We also have had ... the next thing that clients will say in those kind of situations is, "I bought this for the dividend, because I know that I'm going to get three percent, four percent," whatever the yield is. And then the dividend gets reduced or the dividend gets eliminated, then what?

**Brendan:** I think you run across this more so with individual companies, because people adopt them as their pets or whatever, and get attached to a company name, or they use the company's products and therefore believe that it makes it a worthwhile investment.

**Tom:** But what if you invested in a product like an annuity? And it's a variable annuity, it's deferred. This thing hasn't really worked out the way you thought it was going to, but there's a surrender charge attached to it. Then what? That's a bigger decision.

**Brendan:** Well it's not really because we were just talking about opportunity cost in both examples, and so if something is not what you thought it was when you signed up for it, whether we're talking about an individual company, or a product, I think you not only have to consider yes, there is some kind of a cost, whether it be a mental cost in terms of giving away your pet stock, or a monetary cost, like paying a surrender charge to get out of a bad product that you got into. There are costs involved, but there is also costs involved with leaving things as is, sticking with the status quo. It may be tougher to quantify, it's not as black and white as, “Here's this surrender charge,” but you can try to quantify, “All right, well, what if we leave things as they are?” I mean what would be the alternative and how could that work out?

And it's tough to say when you're dealing with the markets and investments, because nobody can predict what the alternatives will do over especially shorter periods of time into the future. But you can at least think about things as they could potentially exist.

**Tom:** One of the discussions that we have periodically with clients, new clients, when they're transferring money in for us to work with, is we talk about how the markets are moving. There's usually very little movement when the markets are doing well, but it seems like every once in a while we'll have a client who will transfer in and the market will go straight down immediately after we bring their investments over to work with us.

It's unfortunate, but it's also part of investing that you have to be in it long term and ride through all of these down periods to get the long term returns.

**Brendan:** I think too ... back to a previous point, to just bring back the Mets for a second, you talked about some of the back contracts, quote-un-quote bad, that the former GM gave out. None of them seemed bad at the time, and some of them have turned out to be bad because of injuries, which we could never have predicted. And so really tough to say ... I would liken that to getting involved with a long term investment plan and then after one year, after results are not what you anticipated over a short time period, saying, “This was a bad investment plan,” based upon 12 month returns, or even ... sorry, two years, or ... I don't ...
I know that a year or two is an eternity to live through day to day, but when we're talking-

**Tom:** Truly-

**Brendan:** -About investments, that's not the long term.

**Tom:** It's not long at all.

**Brendan:** It's a very short term. So I think it's tough to-

**Tom:** So to-

**Brendan:** -Reconcile that. But I just wanted to tie that in again because I think sometimes people ... We're talking about sunk costs, and people think they have a sunk cost on their hands because things haven't worked out right away, but ... not the case. So ...

**Tom:** But they really don't. At the time that the Mets signed Todd Frazier, I think, at least around here in the office, we were all mildly excited about that. I know I was.

**Brendan:** We got a start writing ... I think people should practice this too with their investments. Write down your actual feelings in an unalterable format, like save it as a pdf or something, and write down your feelings when you're making investment decisions or like we'll do it when the

Mets are signing new players, because then we can pull it back out when we're grumbling about how dumb of a decision it was to do, and say, “Oh yeah, remember when we signed Todd Fraser and we were all really pumped about it?”

**Tom:** We were very optimistic, right.

**Brendan:** “Ah, sounds good,” “It fits for the roster today,” all of the great things that we said at that point in time, and now we're like, “Get this bum off our roster.”

**Tom:** I know. You know the worst part about it-

**Brendan:** Is that really fair?

**Tom:** It's not fair. What made that one compound negatively, almost immediately, was before they even played a game, about six weeks later ... was it Milwaukee ... signed Mike Moustakas, who was arguably the best third baseman available in the market last winter. They signed him for a one year deal for seven million dollars. And we're like, “Holy cow, we just committed to Todd Frazier for 20 million dollars for two years. We look like an idiot giving out those kind of contracts. We could have just waited and signed this other guy, much, much better.”

**Brendan:** Yeah ... Monday morning quarterback a bit. It's like-

**Tom:** Wait a minute. Monday morning quarterbacking is what makes the stock market.

**Brendan:** I was just-

**Tom:** It's what makes investing.

**Brendan:** Yeah.

**Tom:** Would you agree?

**Brendan:** I don't think that you should do it, but it definitely plays into it.

**Tom:** -But it happens all the time.

**Brendan:** It's a terrible idea. It's a, “Well, if I only put all of my money into Amazon back in 1998, I would be ... I would own an island today.” Okay, well you didn't, for whatever the reasons were, probably because you had no idea what Amazon was at that point in time.

**Tom:** Right. And you won't be in an e-trade commercial.

**Brendan:** Right. So I don't know. I don't care for what takes like ... takes like that, like, “Ah, we could have had this guy.” You can do that with like the NFL draft too.

**Tom:** Ugh ...

**Brendan:** You go back ... go back 10 years ago to the draft and find your favorite team, look who they took, and if that player wasn't good, look at all of the really good players that went before them. Or the classic one, like Tom Brady, all the players in the draft that Tom Brady went in years ago ... What round did he go in? I don't even remember.

**Tom:** Late.

**Brendan:** It was like the sixth or seventh round or something I want to say.

**Tom:** Right.

**Brendan:** How many players went before that guy? Hundreds. But to go back now and be like, “Ah, we should have taken Brady,” it's like well ...

**Tom:** Yeah, no kidding.

**Brendan:** I guess so.

**Tom:** Every team passed on him more than once. Same thing with ... I mean right now Giant fans are kind of wringing their hands, saying, “Who is this quarterback that they just drafted?” And ...

**Brendan:** I don't even like the Giants, I'm a Jet fan for the record, but I would love to see this guy be good just because of all of the negative press that's been out there. Everyone seems like ... it just seems like everyone thinks it's a foregone conclusion that this guy stinks. He hasn't played a down of football yet, let's wait until then to condemn the draft pick. I don't know.

**Tom:** Yeah. I don't know also. I mean ...

**Brendan:** And then people will change their tune and they'll be like, “I knew it.” If this guy is good, we should remember how much hate the Giants took for making that pick, and then call out all of the people who after the fact say, “I knew when they took Dan Jones that he was going to be a great quarterback.”

**Tom:** Right.

**Brendan:** Really? Where were you?

**Tom:** Yeah. If all the people ... all the same people who were saying the same things about Phil Simms when he was drafted. “Morehead State? What? Who's that guy? We don't even know him.” Ken O'Brien for the Jets, you know, “What is that?” I mean no one knew him, and they passed on some guy named Marino.

**Brendan:** So there are a million ways to be perpetually unhappy with your decisions. Allowing sunk costs to impact your decision, or allowing optics, what others might think, or feel, about a decision you make, I mean whether we're talking ... like we've interwoven here sports and investing. I don't think that those have a place in the decision making process. Although it is pretty much impossible to not think that way you've got to do your best to not allow that to creep into your decision making, because it's not ... it doesn't help anybody to, after the fact, play Monday morning quarterback with your investments-

**Tom:** I'll go a step further and say that if you are the person who can block those kind of emotional feelings out of your decision making process when it comes to investing, you will be a fluke, because even the guys who run institutional money will still press that button based on emotion. “I hate this position. I can't wait to get out of it,” and they just want to move on and so something else with this money, because they feel it'll give them a better opportunity to close that door and move onto something else.

**Brendan:** Yeah. And sometimes it does, and sometimes it doesn't.

**Tom:** -Sometimes it doesn't.

**Brendan:** I would say more often than not it probably doesn't.

**Tom:** Right.

**Brendan:** But to close with a quote ... I don't know if I can quote it because it's not word for word, but I know that Warren Buffet has always said that temperament beats IQ when it comes to investing, and that's precisely what all of this conversation is about. No matter how you want to chop it up, I think that if you can at least control to some degree ... no one is going to eradicate their emotions, but if you can improve upon the average person and their decision making based upon emotions, if you can improve upon that a little bit, you're going to be a lot better off for it.

**Tom:** Well said. Okay with that we're going to wrap up episode 257. Thanks again for tuning in and we will catch you on the next podcast.