The Psychology Undermining March Madness Brackets

Agonizing over your March Madness picks again this year? The biggest threat to your bracket probably isn't the upstart 12 seed you've spent half the workday reading about. A bigger barrier to office pool glory might just be in your head.

Most of us spend a week in mid-March toiling over our bracket selections with a common goal: winning that sizeable office pot. In other words, our bracket is an investment. Unfortunately, when it comes to investment decisions the human mind is prone to mental miscues.

A growing body of behavioral finance research suggests behavioral biases cloud our investment decisions and lead us to irrational choices. These same biases creep into our March Madness selections. This tournament season, we're here to help you weed them out.

At 361 Capital, we are dedicated disciples of behavioral finance and are attuned to how behavioral biases imperil investors. We don't want these mistakes to upend your bracket this March. Read below to learn about 10 common biases that can negatively influence your tournament selections. Before submitting picks into your office pool, we also suggest using our tip sheet for actionable steps that help remove biases from your selection process and capitalize on the biases of others. We hope it makes this year's tournament less maddening.

10 Behavioral Biases that Can Bust a Bracket

1. **Familiarity Bias:** In the simplest terms, this bias suggests that we subconsciously prefer things we're familiar with. In March Madness, it means putting too much faith in your alma mater or hometown team. The bias appears rampant in brackets: Home state fans pick their local team to win the national championship eight times more often than the rest of the country selects that team.[1]

2. **Anchoring:** Anchoring occurs when we tether an opinion to an original reference point and fail to adjust that opinion when new information becomes available. For casual college basketball fans, we might watch just a few games all season. Be wary of assigning too much good or bad will to the one team you watched one time. It's better to look at the full body of work.

3. **Loss Aversion:** The principle behind loss aversion is that losses affect people more emotionally than gains. In short, we are more fearful of looking stupid than we are determined to be right. Loss aversion can lead basketball fans to always choose the top seeds. While top seeds are good teams, they aren't unstoppable: One seeds only advance to the Final Four 41% of the time.[2] Don't let loss aversion keep you from defying conventional wisdom when you sense an upset.

KEY TAKEAWAYS

- When it comes to investment decisions or picking March Madness brackets, the human mind is prone to mental miscues.
- We've identified 10 common biases that cloud both your investment decisions and your office pool picks.
- It's important to remain rational when making investment decisions and bracket predictions.

4. **Information Overload:** Rebounding margin, road win percentage, coaching experience, defensive efficiency ratings, RPI and BPI...statistics offer endless ways to analyze a basketball team. When faced with so much information it's easy to fall prey to information overload, in which we take a mental shortcut to simplify the decision. For March Madness, you could mistakenly resort to using a single metric as the measuring stick for teams.

5. **Herding:** The principle behind herding is that we fear being wrong alone more than we crave being right. As a result, we make a consensus choice even if it goes against our intuition. During March Madness, fans can't see other brackets in their pool until the opening tipoff. Fans herd instead by following the picks of a renowned expert. Be careful: the experts are often wrong. Last year, only five out of 27 ESPN experts correctly predicted Villanova would win it all. Instead, 17 of these so-called experts predicted Michigan State or Virginia would cut down the nets at tournament's end. Neither of those teams survived the first weekend.[3]

6. **Recency Bias:** This bias convinces us that newer information is more valuable and important than older information. For March Madness predictions, that means assigning too much weight to the conference tournaments that precede the big dance.

7. **Confirmation Bias:** With many decisions, people selectively filter and pay attention only to information that supports their opinion, ignoring or rationalizing the rest. This bias presents itself in March Madness picks less in our actual choices, but more in the research we gather. If you filled out a bracket with a predisposed notion about the Final Four teams, make sure not to gather research that only supports those teams' strengths.

8. **Overconfidence:** This bias occurs when we overestimate the accuracy of our predictions. In a March Madness bracket, the bias manifests itself when we aren't critical enough about our own picks. We might be convinced about the champion we select or an upset we pick without even asking why we are so sure.

9. **Gambler's Fallacy:** The gambler's fallacy is a misconception that a random event is more likely to occur, due to the results of previous random events. For example, if a coin flip results in "heads" four times, someone could mistakenly believe the next flip is more likely to be "tails." The odds actually remain 50/50. The gambler's fallacy can trick us into thinking freakish results last tournament can't happen again. For example, last year Virginia made history by becoming the first 16 seed to lose to a one seed. That exceptional bad luck doesn't make Virginia immune to an upset this year.

10. **Halo Effect:** The halo effect means the brain allows a few positive traits to rosily impact the overall evaluation of something. It can happen in a bracket if you assign a higher probability of a team advancing because they have a likeable story. For example, a charismatic player with an interesting background may cause you to subconsciously inflate his team's chances.

Awareness of these biases won't guarantee a winning bracket; but it can keep the selection process rational. To make sure behavioral biases are absent from your own bracket, follow the steps in our tip sheet before submitting your picks. To learn more about how behavioral biases affect professional investors and how we exploit those biases at 361 Capital, read our paper titled "Bounded Rationality: Tapping Investor Behavior to Source Alpha" on the subject.

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https://www.cbssports.com/college-basketball/news/homer-bias-is-real-and-it-will-derail-your-march-madness-bracket/

[2] https://www.ncaa.com/news/basketball-men/bracketiq/2018-03-04/heres-how-many-no-1-seeds-you-should-pick-your-ncaa

[3] http://www.espn.com/mens-college-basketball/story/_/id/22738692/espn-experts-make-final-four-national-champion-predictions-2018-ncaa-

About 361 Capital

361 Capital is a leading boutique asset manager focused on alternative and behavioral-based equity solutions that seek to deliver meaningful alpha, manage risk and offer diversification potential to investor portfolios. Founded in 2001, we offer a suite of investment products including Long/Short Equity, Managed Futures, Macro, as well as Small, Mid and Large Cap Equity.

March 2019