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Monthly Market Perspective

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Performa is an independent, employee-owned investment management firm, founded in 1992. We combine more than 20 years of experience in the captive industry with the institutional expertise of our investment team to provide our clients with tailored investment solutions.

Monthly Spotlight

The Rio Olympics have come and gone, and amid the dirty water, Zika fears, armed (or not so armed) robberies, and shockingly low attendance, the dominance of team U.S.A. was undeniable and, dare we say at this point, routine. The last time the U.S. didn't win the overall medal count at the Summer Olympics was 1992, when the Unified Team, a group of former Soviet Republics, snagged the top spot. Needless to say the winning over the past two decades has been consistent and unyielding, begging the question, why? Why is the U.S. so good!?

We are certainly not the first to ask the question. In fact, the dominance has been so pervasive it has prompted many to consider the driving force behind the relentless success of the United States. The list of reasons includes, but is not limited to the following: a large population, national wealth, good nutrition, and demographics. Undoubtedly all of these factors, to some degree, play a role in the unparalleled success of team U.S.A.; but somehow, even in aggregate, offer a solution that is less than satisfying when one really considers just how dominant the U.S. has been over the last two decades.

For example, take this year's preliminary round basketball game between the U.S. and China. The women's team beat China 105 to 62, a margin of 43 points when the final buzzer sounded. Of course, when considering the margin of victory, one has to adjust for game strategy. In particular, the substitution of the second string players for the best players as the game became lopsided. With strategy adjustments in mind and given the margin of victory, it seems both safe and fair to assume that the U.S. is roughly twice as good at women's basketball when compared to China.

At this point red flags should be popping into your field of vision as alarms sound in your head. The musty, yet familiar smell of a high school classroom returns, and you're either overcome by an intense feeling of dread or satisfaction (depending on the type of student you were). Then you start to hear the voice of your Statistics 101 teacher: "A sample size of one is hardly adequate." Your memory and your stats teacher are correct a sample size of one game is hardly sufficient to conclude that the U.S. women's team is twice as good as team China. We ask you to ignore your stats teacher and erase that memory, as this is not a rigorous academic paper, but instead a philosophical exploration that we hope you find interesting. Ok, with that out of the way, back to the task at hand…

Often in economics, controlling for gender can produce both interesting and varying results. The most obvious example is accounting for gender when considering the outcome variable: salary. Time and time again economists find that (all else equal) men make more than women, the notorious and well documented gender gap. In this example, however, gender makes no difference. The men's team destroyed China in their prelim game 119 to 62, again suggesting that the U.S. is roughly twice as good as China at basketball (forget about the small sample size).

The outcomes of these basketball games in and of themselves are not all that surprising, but if you start to peel back the onion, the story gets a little more interesting. Consider the number of players on a basketball team. All it takes is five to eight decent players to put together a competitive team. In China, that is five to eight players from a population of 1.37 billion. For context, China has a pool of potential basketball players that makes up roughly 18% of the world's population. That is, to quote one D. Trump, "UGE."

Meanwhile, the U.S. has to draw its team from a population of 324 million. Said differently, the Chinese have a pool of potential athletes that is 4.23 times larger than the U.S., yet somehow the product on the court is only half as good?

Some of the dominance is absolutely attributable to the list of variables mentioned earlier, but in our opinion they do not go far enough to describe the entire performance gap between the U.S. and the rest of the world. During a time of perceived weakening global relevance, a generation of lazy millennials (that exact generation that just won the Rio medal count by a staggering 51 medals, though of course the Russian track and field ban likely inflated this number), pathetic propaganda, and fear mongering, we think part of the difference is more intrinsic than wealth or nutrition. On the margin, the difference maker has to do with pride, work ethic, and drive.

The U.S. team in Rio sent a clear message that has been overlooked and taken for granted by some. They reminded the world (and hopefully the doubters) that the U.S. still has resolve, passion, and a competitive edge. The athletes who represented the U.S. demonstrated a clear willingness to sacrifice, spending their lives working tirelessly toward the pursuit of perfection. Today that competitive spirit looks different than it has in the past and surely it is now packaged and sold differently than it was in the 1950s. While not as obvious to some, it is clearly alive and well. Some will recognize this, some will not. Those companies and institutions that do will be positioned for future success, while those that don't will face a frustrating, fruitless battle as they fight social trends and preferences in an attempt to return things to how they once were, but will never be again.

Of course athletic success in Rio does not translate to a gold medal for our institutions, businesses, and nation as whole. To be sure, the U.S. is not without its problems; the current presidential election serves as the most recent and glaring reminder of the challenges that lie ahead for the land of the brave and free.

With that said, all is far from lost. After all, the U.S. economy did lead the world out of the greatest economic downturn since the Great Depression. The U.S. dollar remains the world's currency, and its universities and research institutions are second to none. Financial, technological, and social innovation are all alive and well as our academic, business, and social leaders find comfort residing at the confluence of the possible and impossible. While the U.S. has plenty of deficiencies that warrant significant attention, the athletes competing in Rio reminded us all that determination, preparedness, humility, sacrifice and of course, risk taking are required ingredients for success. Perhaps it is the intangibles that define a nation, and give reason to be optimistic.

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ABOUT PERFORMA

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Our capabilities include asset allocation, active fixed income and equity management through diversified mutual funds or separate account portfolios. With offices in the world's largest captive domiciles, including Bermuda, Vermont and South Carolina, we are focused on delivering customized solutions to meet the unique investment objectives and liquidity requirements of our investors.

We are 100% employee-owned and currently manage over $3.17 billion in assets worldwide representing more than 65 captive client relationships as of July 31, 2016. Our investment philosophy is value driven and long-term in nature. Whether approaching asset allocation, fixed income or equities, our ability to be nimble, contrarian and decisive sets us apart from our peers and promotes capital preservation.

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