



MEDALLION

WEALTH MANAGEMENT

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The Winner Takes It All



***The winner takes it all (takes it all)
The loser has to fall (has to fall)
It's simple and it's plain (it's so plain)
Why should I complain? (Why complain?)***

ABBA - <https://www.youtube.com/watch?v=92cwKCU8Z5c>

As I watched March Madness and now The Masters, I can't help but think about the strange dynamic between winners and underdogs. Generally speaking, most of us love to root for the underdog, unless of course we have a vested interest in the winner. We love the Cinderella story. That is what's so great about March Madness, you have a team like the St. Peter's Peacocks that knocks off one Goliath after another all the way to the Elite Eight. But March Madness also has those of us loyal to one program or another, based on where we went to school or where we grew up, and we'll find ourselves cheering for a winner if that happens to be where our loyalty lies.

The Masters is another curious display of winners and underdogs. Take Tiger Woods; he started his career as an underdog, he said that when he started *"Playing at some of these golf courses, I was not allowed in some of the clubhouses where some of the other juniors were, the color of my skin dictated that. As I got older, that drove me even more. So, as I was denied access to clubhouses, that's fine — I put my shoes on here in the parking lot. I asked two questions only: Where was the first tee, and what was the course record."*

We rooted for him and he quickly became a Goliath, and we still rooted for him. He made golf fun to watch, he elevated the sport like only a few ever have. We knew we were watching something special; he was playing the game at the highest level possible. He made the shots when he needed to make them, when the pressure was most intense.

Of course, he had his issues, his demons. While these were predominately off the course, they did impact his play and certainly his fan base. He also had his injuries and then 14 months ago

the horrific car accident that nearly cost him his life and leg. We were pretty certain that we'd probably seen the last of Tiger on a golf course. But after three months in bed and a constant year of rehab, he shocked us all by arriving at The Masters and announcing that he was going to play.

Now he's the underdog again, the "GOAT" but still an underdog, and he probably has more people rooting for him than ever.

In real life, people root for the underdog too. We root for the poor and the disenfranchised. We root for the Ukrainians. We root for the small business, as long as it doesn't become a big business. This is all well and good in most circumstances, but when it comes to your career, your professional development, or your investments, it is probably better to associate with winners not underdogs.

I learned early in my career that betting on underdogs was a losing game. As Warren Buffett famously stated, *"When a management with a reputation for brilliance tackles a business with a reputation for bad economics, it is the reputation of the business that remains intact."* Another great investor, George Soros, pioneered the idea of reflexivity—things that are doing well will probably get better, and things that are doing badly will probably get worse. Both of these men knew that betting on underdogs, betting on turnarounds, was a losing game.

Turnarounds are extremely rare. When you bet on a turnaround you are betting that the loser will stop losing. Think about this. Sure, there are exceptions, people, or athletes, that surprise us. Against all odds, they turn it around and succeed. We call this a miracle. Cue Al Michaels, *"Do you believe in miracles"*, from the 1980 Winter Olympic Games. But in business it is exceptionally rare. In life people are trying to help the underdogs, lift them up and give them a chance. In business your competitors aren't trying to lift you up, they are trying to kill you and put you out of business.

I don't believe in miracles. I like to bet on winners. Countries, companies, and people who have figured out how to win, that's where I want to allocate my money. As winners win, they tend to get stronger not weaker. Not only do they have a winning formula they also attract the best talent, and the lowest cost capital.

One of the things we have been wrestling with for years now is global diversification. Academics will often say that in order to reduce risk you should allocate assets globally, some years the United States will be the best performer, in other years it may be Europe, Japan, China, or the Emerging Markets. Best to spread those assets around.

But what if the U.S. is the winner and all the rest are simply underdogs? What if the U.S. has the best rule-of-law, the best innovation, the freest people, shouldn't we just bet on them? This seems to make sense, but still many Wall Street Strategists refuse to acknowledge it. Just take a look at the following chart from Bank of America which shows that the U.S. has significantly outperformed the rest of the world (RoW).



Because of this outperformance BofA believes that you should short the USA and go long Global stocks. BofA wants you to bet on the underdog, even though that underdog has significantly underperformed the winner. In fact, they want you to buy the underdog because they have significantly underperformed the winner.

Sure, the U.S. has significantly outperformed the rest of the world but let's look forward. We know the U.S. economy is headed for a rough patch with inflation, rising interest rates, and probably a slowing economy. But do you think Europe is in a better place? They also have inflation, rising rates and an economy that is probably already in recession, as well as energy and food shortages, and a hot war. How about China? They have all of the above-mentioned issues as well as Covid shutdowns and growing ostracization because of their Russian friendship and human rights violations. The U.S. also has the best companies in the world.

For this reason, in our global portfolios, we've recently lowered our international exposure and nearly eliminated our exposure to China. We'll bet on the winners and let others root for the underdogs.

***So the winner takes it all
And the loser has to fall
Throw the dice, cold as ice
Way down here, someone dear
Takes it all, has to fall
And it's plain, why complain?***

As always, be careful out there,

Chris Wiles, CFA



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