

# INVESTMENT UPDATE

Greece is in a tough spot, and there is real doubt that they will make it through. Questions have been raised about Portugal, but they are now looking stronger. Some commentators have even been worried about Italy, but they should be OK. Germany has the weight of the world on their shoulders, but they are used to playing the role of the “strong man” of Europe. Brazil and Argentina both have to be considered favorites to win it all, and we’ll confess to being a bit giddy over the chances of the US performing well.

Oh wait—you’re confused? Of course, we’re talking about this summer’s World Cup, the biggest event in sports for most of the world, as 32 national teams from six continents compete for global soccer domination.

We know what you’re thinking: Why should I care about soccer? What’s it have to do with me? Why do those guys flop around like they’ve been hit with a howitzer as soon as somebody lays a finger on them? Will anyone ever score? And for crying out loud, *why doesn’t somebody just pick up the ball and run with it?*

All good questions (or, at least, mostly good), and ones that have been tossed around at Agincourt Capital Management’s After-Hours World Cup Discussion Forum, which takes place at the nearby Penny Lane Pub. We’ll get to your questions, but first, a word about the chances for the US squad: Call us “homers,” but we have a genuine sense of optimism, not that we will win the whole thing (at 80-1 odds, the US is very much a long shot), but that we’ll put in a respectable showing. Our optimism may be misplaced, as the US has rarely performed up to expectations in major tournaments; after all, we finished dead last in the 1998 World Cup. But things have been looking up: The US men’s national team shocked the world by knocking off world #1 Spain in the semi-finals of last summer’s Confederations Cup. Spain was on a 15-game winning streak, and hadn’t lost (remember, soccer allows ties) in 35 games. And there was little shame when the US lost to soccer superpower Brazil 3-2 in the final game, even though we gave up a 2-0 halftime lead.

Despite high expectations, there is a lingering feeling that we in the US don’t “get” soccer, that we have no soccer tradition, that it’s a kid’s game for us and nothing more. Some of that criticism is valid, as soccer’s popularity ranks well behind other professional sports here in the States, including football, basketball and baseball, not to mention NASCAR as well many college sports. MLS, our professional soccer league is, despite the occasional hype (did someone mention David Beckham?) well behind the quality of the best Euro-

pean professional leagues. The net result is, despite a population of more than 300 million, the US often struggles to find eleven players who can compete against much smaller countries.

To answer your questions, and ours, we turn to the experts, namely Simon Kuper and Stefan Szymanski, authors of the recent book *Soccernomics*. This book is a fun read, even if you aren’t all that interested in soccer, as it takes an economist’s approach to analyzing both the sporting and business sides of the game. OK, so even if that doesn’t sound like a “fun read” to most normal people, it at least tries to do something different by using actual data and statistical tools to test long-held beliefs. Let’s take a look at some of the more interesting conclusions.

First, the authors debunk the conventional wisdom that poor people make great soccer players. While it’s certainly true that poor kids can pull themselves out of rough economic conditions by becoming great at sports, it is not true that *poor countries* produce great players. The authors show, again by examining available data, that poor countries are at a huge disadvantage relative to wealthy ones in producing international soccer superstars. They use the host country of World Cup 2010, South Africa, to demonstrate this: South Africa’s whites, even years after the end of apartheid and despite making up less than 10% of the country’s population, still hold a huge economic edge over the black population, especially those blacks who reside in the countries’ dirt-poor townships. The nearly all-white South African rugby and cricket teams are ranked #1 and #2 in the world, respectively, while the nearly all-black soccer team, made up of mostly kids from the economic underclass and raised under the shadow of apartheid, is ranked #82. The simple facts are that it costs money for facilities and coaches, money that poor countries (and in the case of South Africa, impoverished regions of wealthy countries) don’t have. And for the very poor, there’s the problem of just having the good nutrition and medicine that are necessary for athletic endeavors.

The authors cite the recent successes of China and South Korea as formerly-poor countries that are using their new wealth to build up their sporting capabilities, with excellent results; China hosted the 2008 Olympic Games and placed first in the overall medal count, while South Korea reached the semi-finals when it hosted the 2002 World Cup (of course, statistics show that playing at home helps, too!). Wealth brings coaches, facilities, and perhaps most importantly, organization. The disorganization of poor African teams competing in the World Cup is legendary—



players not getting paid, teams not lining up proper training facilities near their hotels, teams showing up late for matches—and has resulted in poor results for African countries in every World Cup since the tournament started in 1930.

How, then, do we account for kids from poor neighborhoods making it big in professional soccer (and basketball, football, and many other sports)? The answer is, quite simply, practice. The authors reference the “ten thousand hour rule” first set out by Malcolm Gladwell in his book, *Outliers: The Story of Success*. Gladwell found that composers, criminals, fiction writers, and athletes—all needed at least ten thousand hours of practice to achieve success in their chosen field. Kuper and Szymanski believe that poor kids in rough neighborhoods are, in some important ways, at an advantage in hitting the ten thousand hour mark sooner—they (and scores of other little boys and girls in the neighborhood) live in cramped apartments with little in the way of indoor entertainment. Their families place less emphasis on schoolwork, and the kids don’t have the money to spend on other leisure activities. The answer, from the Bronx to the *barrios* of Sao Paulo to the squalid apartment blocks in the depressed Paris suburbs, is to go down in the street and play ball with the other kids.

Digging further into the data, the authors use regression analysis to try to find the major explanatory factors that account for success in world soccer. Analyzing the results of international soccer matches since 1904 showed that, along with a country’s per capita income, there are two other important factors that predict success: population and experience. Together, these three components were “regressed” and found to be a very good statistical fit with the team’s average winning/losing margin, or goal differential. Population is easy to understand; the bigger the country’s population pool, the greater the chances of fielding a team of world-class players. But how big an impact does experience have? As it turns out, it is the most important of all three: on average a team with twice the experience in international soccer matches increases its goal differential by 0.3 goals per game; in a low-scoring game like soccer, that’s a pretty big number.

Getting back to the US men’s national team, we certainly rank high on both per-capita income and overall population, and even though it seems like we’re not very well connected with international soccer, we do rank high in experience. As a result, the US, from a statistical standpoint, underperforms what our size, wealth and experience would predict, ranking 92<sup>nd</sup> in relative achievement out of 98 teams (Luxembourg is the biggest underachiever, in case you’re interested). The reason can only be attributable to the competition in the US from other sports that drain the athletic talent pool in favor of higher-visibility sports like football and basketball. Still, there is hope: with the right coaching and an increase in Americans playing in the world’s best professional leagues (our 23-man World Cup roster includes only four that still play in MLS, while 17 ply their trade in Europe), the US has the resources to become far more competitive in the coming

years.

Finally, let’s turn to the financial side of soccer. As we’re seeing now that this year’s World Cup is underway, there is a lot of money spent on soccer tournaments—by fans who support the teams, by the teams themselves on player salaries, coaches, facilities and marketing, by television networks for the rights to broadcast the games, by gamblers who bet on the matches, and (especially) by those who sponsor the tournaments. As with the Olympics, there is heavy competition to be the host country for the World Cup; host countries must be willing to spend vast sums to build or upgrade stadiums, hotels, transportation, security, and a host of other expenses, all with the promise that these massive outlays will be covered when the fans show up. But when it’s over and the fans all head home and all the money is counted, invariably the actual revenues always fall well short of expectations, and never come close to repaying all the expenses. Countries lose hundreds of millions of dollars sponsoring the World Cup—why?

As it turns out, the answer is happiness. In developing economies, the population is in survival mode; they need nutrition, shelter, electricity, clean water—a small increase in wealth leads to huge gains in well-being and happiness. In developed economies, studies have shown that it takes a very large increase in wealth to create a measureable jump in personal happiness or well-being. One of the authors of *Soccer-nomics* found that host countries of major soccer tournaments showed an increase in happiness among the population equal to hundreds of dollars per month in increased income, even months or years after the tournament was over. For an entire country, this can be measured in the billions of dollars.

This, of course, leads to bigger questions that impact global finance, especially in today’s debt-riddled Western economies. Policymakers and politicians are struggling to find ways of increasing happiness and well-being without committing to massive spending projects. The psychological benefits of sports appear to be real, but how do they play to finance ministers worried about keeping government finances afloat? Can we afford to emphasize events solely for the purpose of gathering and socializing for a common interest? It’s an old-fashioned notion, one that seems somewhat out of step with an educated, urban, and admittedly self-indulgent modern populace. In the UK, the typically feel-good Labour party’s Tony Blair was put on his back foot by the far more numbers-oriented Conservative (and current Prime Minister) David Cameron in 2007 when Cameron suggested that the British government spend less time focusing on GDP and more on “GWB—general well being.” Is this the new face of politics?

We’re not suggesting that soccer will save the world (even though, statistically speaking, World Cups have reduced the incidence of suicide). But sports, even big, expensive sports, add an essential and colorful thread in the tapestry of human existence. Can we afford *not* to have them?

