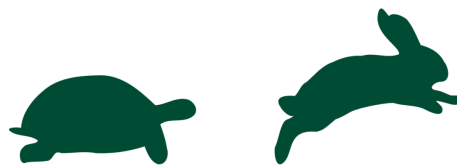


A Few Thoughts On Benchmarks

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*"If you know the enemy and know yourself, you need not fear the results of 100 battles."
Sun Tzu (544 – 496 BC) Chinese general, military strategist, writer, and philosopher*

Like most mammals we start life observing and mimicking our nurturers and peers so that we can eventually function independently, become autonomous if only because our survival instincts tell us that dependence must invariably be linked to being more “vulnerable” when exposed to the elements. Autonomy should therefore contribute to increasing our odds of survival, although that was more likely the case in a distant past before we figured the many ways to tame and mold our universe to our likings. Still, the desire to observe and compare ourselves to others never really ceases, it just changes form as we grow older and mature. If the initial phase of this comparison process is meant to help us gain independence, our accumulated knowledge and experience is used in the ensuing phase to make us compete and do better than our peers.

It could be argued that our urge to compete is one of the most important traits of our existence given that it has allowed us to achieve such astounding progress over an incredibly short time span. That progress has only been possible because it is gauged. We need our bearings to determine not only where we stand but more importantly, where we want to go. Benchmarking is just the fancy term used to describe the relative reference point(s) to which we measure and compare ourselves. A benchmark can be entirely subconsciously designated, like with social media platforms such as Instagram where the target is a specific peer group, or it can be conscientiously determined and officially designated, like those of pension funds.

Between these two extremes lie a whole range of benchmark types with all sorts of distortions given that there are no universally accepted set of rules in determining their selection or construction. That is why some benchmarks can lead to confusion, frustration, are purposely misleading and can even put our lives in danger. Arguably the most important consideration in benchmark selection is the extent to which it is “comparable” to what it is being compared to. Isn’t it misleading to highlight the performance of a Tesla car if the benchmark is comprised of tractors just as it makes no sense to use a value stock index as a performance benchmark for a portfolio of growth stocks or vice versa?

There are also instances where the benchmark is not just inappropriate but can also be damaging or counterproductive, when they contain certain biases that make it impossible to properly measure your performance. It is a very human trait to focus on the positives whilst diminishing or shunning the negatives. Social media platforms are glaring examples of this. Their algorithms, by stimulating our dopamine, incite participants to concentrate on just the positives, whether it be

with regards to career achievements, reaching certain milestones, or boasting about one's physical attractiveness. This creates such a distorted peer group that using them as benchmarks can be harmful to mental health¹. We all hear about the incredible fortunes amassed by bitcoin and meme investors. What we hear much less of, however, are the more frequent losses or failures²³.

Sometimes the most appropriate benchmark happens to be yourself, if your objective is attaining greater wealth and status for example, it makes more sense to compare yourself to yourself over time rather than targeting the likes of a Jeff Bezos or Elon Musk. You are more likely to end up frustrated with such peers because it doesn't say anything about the mostly random pathways through which they amassed their respective fortunes (a combination of generous serendipity and skills), which means that there will certainly be a gaping mismatch between you and your designated benchmark. That doesn't mean that making such comparisons are completely useless or futile. One of humankind's greatest achievements is attempting feats that have never been done before, like setting foot on the moon.

So, benchmarks are indeed essential if we are to make headway; we just have to choose the right ones for the job or make certain to calibrate them for their intended use because even in those instances where the necessary diligence has been accomplished, there can remain subtle pitfalls that you need to be aware of. In investments, for example, a benchmark might appear a perfect match on the surface and yet suffer from "survivorship bias"⁴, where constituents that have performed poorly or no longer exist are discarded over time, which means that the benchmark performance will be highly skewed. Overlooking such flaws can lead to costly errors over the long term.

Where Do We Go From Here?

Supply chain bottlenecks affecting most sectors continue to fuel inflationary pressures right at a time when a new pandemic wave is pushing governments across the globe towards another round of recovery sapping restrictions. This could mean that we are heading towards some form of stagflation. The major risk with inflation, of course, arises through its persistence, which increases chances that it becomes integrated into expectations of both businesses and households, making it all the more difficult to contain afterwards. To make matters worse, we have the recent climate change summit (COP21), an almost complete failure⁵, and stock markets at record levels with stretched multiples, which means that both the short- and long-term outlook appear to be on shakier ground than just a few weeks earlier.

Consumption has remained strong despite the jump in prices, but the true test will be in coming weeks as the holiday season goes into full swing. The pandemic has dramatically altered demand behavior towards goods and at the expense of services that continue to suffer. This pattern is likely to persist over the coming months as the new wave hits populations hard across the globe. The pandemic, its supply chain disruptions and the specter of persistent inflation also appears to have fueled an asset bubble in luxury items as witnessed by the recent record sales at various auction houses⁶. With so much uncertainty on the horizon, major economies continue to play a balancing act in steering their respective economies through dueling head and tailwind forces.

The Fed, like most other central banks, is in a major predicament, having to pull its foot off the lever to avoid runaway inflation sapping the economy from its vigor, but not so much as to trigger a recession in the midst of a pandemic that shows no signs of abating. In the U.S. the recently passed \$1 trillion infrastructure bill is being met with growing skepticism

¹ <https://www.washingtonpost.com/lifestyle/2021/09/17/instagram-teens-parent-advice/>

² <https://www.nytimes.com/2021/01/12/technology/bitcoin-passwords-wallets-fortunes.html>

³ <https://theclick.news/gamestop-meme-stock-frenzy/>

⁴ https://en.wikipedia.org/wiki/Survivorship_bias

⁵ <https://theconversation.com/the-ultimate-guide-to-why-the-cop26-summit-ended-in-failure-and-disappointment-despite-a-few-bright-spots->

⁶ <https://robbreport.com/style/watch-collector/phillips-74-5-million-watch-auction-shatters-world-record-and-philippe-dufour-stole-the-show-1234646595/>

as to its effectiveness, some pundits even suggesting that it could make matters considerably worse⁷ considering the unusual economic conditions plaguing this cycle. Biden's popularity has also been plummeting after a series of botch ups, starting with the poorly executed Afghan pullout and more recently his inability to mount a credible strategy to growing economic woes.

Biden's announcement that he would be tapping into the U.S. strategic oil reserves, releasing 50 million barrels, is clearly a political move aimed at assuaging public opinion just when the economic outlook appears to be souring. It may provide some short-term relief but is unlikely to reverse the course of hydrocarbon prices. There is also this growing sense that although his style and execution may differ, the Biden administration policies are close enough to those of Trump that many of the conflicts and tensions, such as those with China, that have been building up over years are likely to remain. China's recent actions do signal a comprehensive strategy of decoupling from the west and although the globalization process is unlikely to reverse, it is clear that a major geopolitical recalibration process is under way.

Even if the supply chain shortages can be blamed mostly on the pandemic and poor planning, it can't be entirely ruled out that at least some of it is politically driven. China is designating a growing list of resources as of "strategic" importance and may well have started to divert them for their own needs⁸. Last but not least is the toxic populism wave that continues to plague the world, causing many frictions along the way, whether it be with the increasingly vocal resistance of antivaxxers compromising the headways made against the pandemic, political tensions within the EU as migration problems resurface, or the broader east-west ideologically-driven competition that seem to be laying the groundworks for a technology-driven arms race.

The future is once again uncertain, but has it ever been otherwise? It is in fact the degree of uncertainty, like a pendulum swinging from one end to the other, that varies over time. We know this because we constantly make comparisons with what things were like in the past. It helps us gain awareness of the dangers we face like climate change even if it may be occurring at a snail's pace. There is also the saying that the past is not always a good indicator of the future and in a world where change is taking place at a breakneck pace, that may be truer than ever.

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⁷ <https://www.bostonglobe.com/2021/11/14/nation/will-bidens-big-spending-bills-equal-more-inflation-its-complicated/>

⁸ <https://edition.cnn.com/2021/11/24/business/china-shipping-data-mic-intl-hnk/index.html>