Are the Olympics a Golden Opportunity for Investors?

Few things inspire a country’s national pride more than hosting a World Cup or an Olympics. But how well do these mega-sporting events drive growth in a host nation’s economy or equity market? With the upcoming 2014 World Cup and 2016 Summer Olympics in Brazil and the 2014 Winter Olympics in Sochi, Russia, it is an ideal time to address this question. To prepare for these events, Brazil and Russia are spending billions to modernize infrastructure, build stadiums, increase commerce, and promote tourism. To the casual observer, such activity might seem fertile ground for economic expansion and strong investment performance. However, history suggests the opposite: Mega-sporting events usually leave the host nation with budget overruns and massive debt, and event-driven investment strategies have rarely succeeded.

This paper will highlight the fiscal failures of past Olympics and examine preparations in Russia and Brazil, which have been fraught with budget problems, protests, and possible corruption. The article will also suggest that a more probable way to lift a nation’s long-term productivity and corollary investment opportunities rests on microeconomic reforms and better-educated citizens. We will identify some of the specific investment themes in Brazil and Russia that should be unaffected by the success or failure of the impending events.

Economic and financial results of past Olympic Games
The majority of Olympic host nations have not experienced sustained growth in GDP (gross domestic product). As shown by this random sampling of 10 Olympics held between 1964 and 2008, the host nations’ GDP generally rose before the Games, started to fade as the Games began, and then tapered off considerably afterward (see Exhibit 1, below).

EXHIBIT 1: No sustained economic growth from Olympics for most host nations.

In addition to the historical lack of GDP contribution, investors should consider the weak financial results of many recent Olympics (all figures in U.S. dollars):

- **Montreal, 1976:** Worker strikes, mismanagement, and huge cost overruns left the city with $1.5 billion of debt that took 30 years to erase.¹

- **Barcelona, 1992:** The Barcelona Olympics left the central Spanish government $4 billion in debt, and the city and provincial governments an additional $2.1 billion in the red.²

- **Nagano, 1998:** The full cost of the Nagano Olympics will never be known, because the documents accounting for money spent on the Olympic bid were burnt on the orders of Nagano’s Olympic Committee vice-secretary general. Yet it is clear it went vastly over budget and, as a result, Nagano fell into recession.³

- **Sydney, 2000:** The Australian state auditor estimated the Games’ true long-term debt was $2.2 billion.⁴ Pre-Olympics, Australian officials estimated that tourism would quadruple after the Games, but there was no boost at all.⁵

- **Athens, 2004:** The Athens Olympics vastly exceeded its $4.6 billion budget. Many believe the real accrued debt of roughly $15 billion contributed to Greece’s present financial crisis.⁶

While a very small number of Olympics were considered “profitable”—such as the 1984 Los Angeles Games, which leveraged existing pro and college stadiums to avoid huge construction costs—some industry watchers disagree with that claim.

“There has never been an Olympic Games that has made a profit,” says Robert Barney, director of the International Centre for Olympic Studies at the University of Western Ontario and coauthor of *Selling the Five Rings: The International Olympic Committee and the Rise of Olympic Commercialism.* “Fold in all the costs and revenues,” he says, “including federal allotments, municipal allotments, provincial or state allotments, it’s always been that a debt has to be paid somewhere.”⁷

**Beware the hype**

As history has shown, financial projections for mega-sporting events consistently fall short of expectations. Why? Because many believe—and research confirms—that the projections themselves are overstated. For example, Rio-based U.S. investigative journalist and author Charles Gafney states, “Herein lies part of the problem: mega-events, almost without exception, are predicated upon short-term return on public investment for private industry—economic projections that indicate massive growth for small businesses are conducted by firms contracted to demonstrate just that.”⁸

A study by Jeffrey G. Owen, Department of Economics at Indiana State University, offers a similar conclusion: “Cities that host the Olympics must commit to significant investments in sports venues and other infrastructure. It is commonly assumed that the scale of such an event and the scale of the preparation will create large and lasting economic benefits to the host city. Economic impact studies confirm these expectations by forecasting economic benefits in the billions of dollars. Unfortunately, these studies are filled with misapplications of economic theory that virtually guarantee their projections will be large. Ex-post studies have consistently found no evidence of positive economic impacts from mega-sporting events even remotely approaching the estimates in economic impact studies.”⁹

**Case in point:** An analysis of the Sydney Olympics’ impact on GDP illustrates the gap between hype and reality, evidenced by the considerable gulf between pre-Olympics estimates of economic benefits compared with post-Olympic studies (see Exhibit 2, left).

**Present day: Preparations troubled in Brazil and Russia**

**Protests in Brazil**

According to a recent study by the University of São Paulo, Brazil will spend roughly $18 billion on infrastructure ahead of the 2014 World Cup, $14 billion of which will come directly out of Brazilian taxpayers’ pockets. Expected outlays devoted to the 2016 Olympics are likely to be an additional $15 billion, for a combined total of $33 billion.¹⁰ If the Brazil Olympics do go over budget, it
Scores of Brazilians have taken to the streets in protest of these high costs. The initial demonstrations were in response to a proposed rate increase for bus and metro fares, but the dissent quickly spread to include excessive spending on stadiums, corruption, and poor public services. Matheus Bizarria, an NGO Action Aid worker, said Brazilians have reached the limit of their tolerance, brought into focus by the billions being spent on new stadiums rather than public services. “It’s totally connected to the mega-events,” Bizarria said. “People have had enough.”

Corruption in Russia
In 2007, Russia estimated it would cost $12 billion to host the Sochi Games. That estimate is now $51 billion, which would make it the most expensive Olympics in history. Why has the estimate quadrupled? Corruption, according to a prominent former Russian deputy prime minister, who claims Russian officials and businessmen have stolen $30 billion during the years leading up to the Games.12

Russia is challenged with corruption, as evidenced by Transparency International’s Corruption Perceptions Index (CPI), which generally defines corruption as “the misuse of public power for private benefit.” Each year, the CPI ranks countries by their perceived levels of corruption, as determined by expert assessments and opinion surveys. In 2012, the CPI ranked Russia 133 of the 176 nations it tracks.13 Corruption is allegedly widespread in Russia’s construction industry, and the number of new venues needed to host the Games in Sochi may have offered ample opportunities for graft. Not even key Russian officials are above suspicion, where $7.4 billion in recently awarded contracts for the Sochi games reportedly went to a childhood friend of a leading, well-known politician.

Potential investment themes in Brazil and Russia
Brazil: In a recent national poll, 48% of Brazilians who responded said poor health care was Brazil’s biggest problem (see Exhibit 4, below), followed by education (13%) and corruption (11%). After a decade of relatively healthy economic growth, taxpayer and government spending on health care and education should rise. Services aimed at retraining workers, as well as private-sector primary and secondary education, should also capture a larger percentage of Brazilian household expenditures. Meanwhile, protests about the rising cost of already-substandard public transportation will likely command increased government-budget priority in years to come.

The study also found that “low productivity gains in recent years have become a central issue for the low trade competitiveness exhibited by the Brazilian economy” and that “improvements in the efficiency of service sectors are central to improving the productivity of all other economic sectors.” The study finds the cost of doing business in Brazil—both in terms of labor costs

EXHIBIT 3: If it exceeds its budget, the Brazil 2016 Olympics could be the second-most expensive ever.

COST OF HOSTING


would be the second-most expensive Games ever (see Exhibit 3, above).

EXHIBIT 4: Some of the best investment ideas in Brazil may align with the solutions to its worst problems.

PERCEPTION OF NATIONAL PROBLEMS IN BRAZIL

Ideas that could prove rewarding to investors, long after the streets are swept clean of closing-ceremony confetti.

Russia: Despite being similarly challenged with a heavy resource-based economy, productivity in Russia has actually been superior to Brazil’s (see Exhibit 5, left). Russia’s demographic and labor-force characteristics—being older, yet more highly skilled and educated—are different from Brazil’s, so policies focused on enhancing Russian infrastructure, services, and capital markets should bolster the nation’s productivity growth in the future. We would expect growth in the private health care, consumer, and financial sectors to deliver superior returns to investors relative to the heavily cyclical, highly regulated, and commodity-price dependent materials (steel, mining) and energy sectors in the country. Specifically, Russia would benefit more from new firms delivering health care services, akin to Russia’s successful homegrown supermarket sector, than showcasing another sports complex.

Investment implications
In trying to find a rational investment case for any sector or stock beyond the hype of its association with the World Cup or Olympics, we examined dozens of studies on the failed realization of supposed benefits from infrastructure investment on both the Olympics and World Cup. Based on these reports, our consensus is that mega-events like the Olympics and World Cup offer no meaningful lasting economic benefits, and that investors should be wary of expecting any such benefits.

It is seldom possible to exploit event-driven opportunities of this nature because they often fail to transform the long-term, underlying productivity challenges many emerging-market countries face—from education levels to infrastructure. Instead, better understanding where supply/demand imbalances may exist in the services sector and where policy responses may positively remedy those imbalances may offer more potentially rewarding opportunities.

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**Endnotes**

2 International Monetary Fund, “Is it Worth it?” March 2010.
13 Transparency International’s 2012 Corruption Perceptions Index.
14 The World Bank, “Brazilian Exports: Climbing Down a Competitiveness Cliff” by Octaviano Canuto, Matheus Cavallari, and José Guilherme Reis, Jan. 2013.

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