Healthcare Baselines and Handicapping the Court

The Markets Will Guess Wrong, But Enjoy the Show

One of the stranger pieces of baggage associated with being a free-market economist, and one that Southwest Airlines (LUV) will not charge me $25 to schlep across the country, is reminding people markets are not magic. Their job is not to forecast, but rather to measure. As a case in point, a farmer may have to sell soybeans forward in the futures market to secure a loan and the buyer of those futures may be doing nothing more than locking in a margin while holding an opinion soybean prices could fall: Both sides may be convinced of their foolishness and yet the resulting price, their behavior as opposed to their attitudes, stands as a signal to all market participants of where business can be done regardless.

Healthcare Handicapping

I have no legal insight as to how the Supreme Court will rule after last week's oral arguments regarding ObamaCare, and I dare say the Justices may wind up surprising themselves as to how they deal with the issues involved. I always had a problem with the law's approach not so much in the mandate but in how it would raise demand for healthcare services at the margin and not allow prices to ration that demand. To me, it was always a recipe for shortage and inefficiency. However, gutting the law is going to cause some major chaos in the sector; if you do not agree, find some hospital administrators and ask them how much time and resources they have devoted to the issue over the past two years.

The best-performing healthcare group between the November 2009 invocation of cloture in the Senate (remember the "Cornhusker Kickback" and the "Louisiana Purchase?") and the Supreme Court hearing was managed care. Only Magellan Health Services (MGLN) and Wellpoint (WLP) had below-market returns; all others including Amerigroup (AGP), Centene (CNC), Molina Healthcare (MOH), Humana (HUM), United Healthcare (UNH), Aetna (AET), Healthnet (HNT), Cigna (CI) and WellCare Healthplans (WCG) rang up above-market returns. If these firms' investors were fretful over the hearings, they certainly did not show it; all performed well last week. The moral of the story seems to be regardless of the outcome, the country is going to be moving toward more managed care and these firms are going to be taking their cut. This is the classic form of Parkinson's Law: Whether the task expands or contracts, administrative overhead grows at a steady rate.

Which group did worse after the passage of ObamaCare became both inevitable and, in the words of Vice President Biden, "a big (inaudible) deal?" That would be Facilities, a group including Tenet Healthcare (THC), Health Management Associates (HMA), Community Health Systems (CYH), Universal Health (UHS), Ensign Group (ENSG), Kindred Healthcare (KND), Lifepoint Hospitals (LPNT), Hanger Orthopedic Group (HGR), Amsurg (AMSG), and VCA Antech (WOOF). The conclusion here is these firms are going to be on the receiving end of someone else's cost-cutting effort; this is not the place you want to be.

As we move forward into the Court's ultimate decision, you will see speculation roiling the sector as to who will win and who will lose. Some will be right by accident; most will be wrong by bombast. And as far as using markets to predict things, just look at the now-casting perfected by various online betting sites. These may be superior to polls only in the sense they have a self-selection mechanism for who participates, the bettors themselves, but if slapping a few bucks down on the table makes someone a genius, from whom do the casino operators of the world get the money to finance their gaudy construction?