

The Outlook: Sept. 25, 2019

Needle in the haystack: looking for one single piece of good news.

There's a game we sometimes play, at Outlook Capital Management, called "Needle in the Haystack." The challenge is to find one single piece of good news in the typical day's tidal wave of depressing sludge. We can't play this game every day, of course, because it takes a lot of time to sieve through any day's swamp of bad news (the only kind worth noticing, to the media), hoping to find even one shining nugget about something good. But the swamp has been mighty deep, this week, so we looked for that needle.

Brazil Cuts 2,300 Tariffs, Opening a Giant Economy Long Sheltered from Competition



"Brazil's model of protectionism has failed," said the Deputy Minister for Trade. "It's been 40 years without sustainable economic growth." So, "with little fanfare, since January the Bolsonaro Government has cut thousands of tariffs on foreign goods, cutting those rates from 20% to zero, in many cases," said the news report . . . which was on the back pages, naturally.

The story was startlingly clear, for something buried in a swamp. We'll let it speak for itself.

- "Since 2014, the country has been mired by recession and low growth, with the jobless rate hovering at 12% or more."
- "When Mauá University outside São Paulo imported American equipment last year (that it couldn't find in Brazil) to upgrade its physics lab, import tariffs doubled the price tag to \$70,000, said Francisco Olivieri, a business professor and head of Mauá's technology department.

- “Red tape related to tariffs at Brazilian ports mean imported supplies can take weeks to reach buyers, causing production delays.”
- “55% of foreign products require the importing companies to obtain permits from as many as 6 different government agencies, according to a recent study by the National Confederation of Industry, or CNI, a trade group that represents Brazilian factories. Importers are subject to steep fines if they fail to request a permit, but it is often difficult to determine from which agencies they must seek approval.”
- “It takes nearly 2,000 hours a year for a typical company to file corporate taxes in Brazil, the World Bank says, more than any of the 190 countries it tracks. In neighboring Argentina, also considered tough on companies, it takes 311.5 hours a year.”
- “Opening the economy brings great responsibilities upon the government,” said Mr. Abijaodi (a Brazilian business executive.) “The government will have to remove costs stemming from bureaucracy, from our tax system, our logistics and infrastructure (so that we can compete with foreign imports.)”

We sometimes mention the growth-killing nature of heavy government regulation, at Outlook. Real-life examples do help to paint the picture, don't they?

The interesting thing about this Brazil story is that these decisive shifts toward free markets and competition have been triggered by Brazil's new President, Jair Bolsonaro. Mr. Bolsonaro's background includes more than 20 years in Brazil's legislature . . . where he was a staunch opponent of markets and competition, and a staunch supporter of big-government taxation and regulation. He changed his mind. It does happen sometimes, with Germany's Chancellor Helmut Kohl one of the best examples. Mr. Kohl took over when Germany was mired in the economic stagnation of the early 1980's. He reversed his past policies to cut taxes and spending, and introduce competition to the German labor market: cutting job guarantees and laws against layoffs. German economic growth accelerated . . . while the other “big names” in Europe kept stagnating. Like Mr. Bolsonaro, Mr. Kohl decided the old system was failing, and it was time to say so regardless of the political firestorm.

We found the same kind of needle in the haystack, recently, in the story of Greece's new President.

In the media's view of the world, such nuggets are just about meaningless compared to the frightful nightmares available for wallowing in, every day. But in Outlook's experience, such nuggets turn out to matter a lot more than the mud swamp of nightmare news matters. We'll keep an eye out for more!

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