

The Miatello Quarterly

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Let's connect

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America 2.0

The Insurrection of January 6th was a cataclysmic event for the US. What became apparent in its aftermath is that the Republican party is fractured. The first group in the majority is led by Senator McConnell. They wish to continue to game the system that disproportionately rewards them with power. The second group led by Senators Cruz and Hawley wish to inherit Trump's mantle and lead his base. Neither GOP leadership group has any further need of Trump. McConnell's faction knows Trump to be an embarrassing clown.

They used him to achieve their objective of tax cuts for the rich, the gutting of regulations in many agencies and the appointment of hundreds of conservative judges at all levels of the court. His continued presence causes too many problems for their backers, the true dark swamp who cannot tolerate disorder. Cruz and Hawley are political opportunists playing a game. This will be one or both of their opportunities to lead a rabid massive group of people. Trump never had a killer instinct, intellect or vision but Cruz and Hawley certainly have these attributes. They are arguably the most dangerous to the current order. McConnell's traditional group and backers will try to eliminate the upstarts.

Implicitly, the Trump base either has no interest in liberal democracy or they feel it has betrayed them. Reportedly the Insurrectionists see their assault as a victory and are widely thought to be planning more confrontations and violence. The US has entered a new phase in its evolution.

The Trump administration laid bare for all to see the failings of what was once purported to be the world's leading exemplar of liberal democracy. The pandemic was the catalyst to start the reveal to the world. The Insurrection of January 6th was the final blow.

Long standing problems have finally reached the boiling point. The problems are across the spectrum and include racism, expanding income inequalities, and the diminishment of the middle class due to automation, technology, and globalization. These factors gave rise to extremely partisan politics exacerbated by a peculiar governance system. One could well make the case that many politicians, funded by dark money, legislate in their favor. This works for a while until it reaches a breaking point. January 6th is the result.

Prior to 2005 in Canada, there had been a hard cap on the percentage of foreign investments allowed in pension accounts. This constraint affected the development and structure of the securities industry. Individual investors usually held Canadian investments even in taxable accounts where there were no restrictions. Once the cap was abolished, the most reasonable place in an expanded investment universe was the US. It has been profitable to invest in a country dedicated to the well-being of large corporations controlled by the American billionaire plutocracy.

The Americans' societal and governance problems, if solvable, will take decades, perhaps generations, to resolve. There will be considerable turmoil and violence. Remember 74 million Americans voted for the transparent Trump autocracy. It would be unwise to place all of one's foreign investments in the US, notwithstanding Warren Buffett's bromide to "Bet on America." By the way, Buffet recently bought \$6 billion of Japanese trading companies.

In the Spotlight: Bureau Veritas SA (BVI)

Bureau Veritas is a Paris based company that was founded almost 200 years ago. Its growth has been intertwined with world trade ever since. It is in a category of companies that are known as TIC firms: test, inspect, certification. Operating in over 140 countries through a network of offices and laboratories, it has 75,000 employees and a market cap of 10 billion euro.

BVI's business is focused on reducing corporate risk by ensuring assets, products, infrastructure, and processes comply with client specifications or standards and regulations, while improving performance in quality, health and safety, environmental protection and social responsibility.

Consider a recent assignment that is a worldwide problem. You may have heard that the logistics of the vaccine rollout are daunting. The first two COVID-19-approved vaccines are required to be transported and stored at very cold temperatures. The Pfizer-BioNtech vaccine requires -70 Celsius. If it varies by 10 degrees, then it is spoiled. BVI partnered with Quebec-based OPTEL to ensure that shipments adhere to the strict conditions for delivery to recipient countries. Together, the firms launched V-TRACE, a complete and assured traceability solution for vaccines along the whole supply chain. BVI provides independent inspections all along the supply chain to control inventories, storage and logistics conditions which complements OPTEL's ability to provide real-time traceability information.

BVI went into the pandemic with a weak financial position, a low Return on Invested Capital and high debt. In addition, in comparison to peers, it had exposure to sectors most affected by the lockdowns. The stock price took a substantial hit and provided a great value during the bleak early days of the pandemic. Current PE ratios are not relevant to valuation. Instead, a more direct discounted cash flow analysis assuming a return to normality, is a more reasonable approach. Also, an improvement in business mix and margins, that this pandemic shock provides, would lead to higher earnings and stock price.

We own the stock.

Continued on next page

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Ask Brian

Hi Brian!

I am concerned about investing in the US. What should I do?

Bill

Dear Bill:

You are right to be concerned. The fact that we now must consider geo-political risk with respect to US investments is astonishing, but perhaps inevitable. A long history of Cowboy capitalism, strange governance, racial and class inequality, tethered to extreme technological change has led Americans to this point. It is important to recognize major inflection points in a country's evolution and the Insurrection is certainly in that category. Turmoil south of the border will also seep into Canada. These will be decades long problems. Continued democratically elected government, as has been known to date, is not assured, but it may not matter.

For now, I think you should start to move beyond North America for investing. China is the new global hegemon. It is a dictatorship, but it is stable, and the leadership wants continuous growth. Japan is on their doorstep and you can participate in Chinese growth through their companies. The Japanese have long known this and have been preparing for it for decades.

Brexit rids the EU of an obstreperous member and will serve to unite the disparate countries, so I would expect better opportunities in the 500 million population market. What remains of the UK, perhaps just England and Wales, will make them fight harder to recover from the economic blow from Brexit. In the end, their spirit will prevail.

In my practice I invest in all these markets directly in individual stocks. Today, there is sufficient information available to make prudent investment decisions in world-wide major markets. At this point, half the equity holdings are outside North America.

Sources: Financial Times, New York Times, The New Yorker, Washington Post, BMO Capital Markets, J.P. Morgan, Barron's, Wall Street Journal, The Globe & Mail, National Post, Bloomberg, Bureau Veritas



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