

The Wool from Afar

I bought a wool mattress topper from Amazon (AMZN) last week and in the process of reviewing where it was produced, I was pleasantly surprised to see, Kyrgyz Republic (Kyrgyzstan). What? You ask. Well, it's one of the former Soviet Union countries that holds the title as the ninth poorest country of the former Soviet Union and the second poorest country in Central Asia. Tajikistan holds the gold medal in that category.

Why do we care about all of this? ***Developing Nations, Corporate Earnings Growth, The Amazon Effect and the Future.***

Developing Nations

Countries such as Kyrgyzstan—the poorest and the lowest wage earners of the lot—are finding new hope through shopping channels such Amazon and Walmart (WMT). While the start for some of these countries may be slow at first, their introduction into the world's market is, well, transformative. This slow uptick trend of their GDP enables workers to buy—sometimes for the first time—basics: a bar of soap, a bandage, aspirin, shoes. Is it perfect...this use of the lowest wage workers to produce your goods? No, never is. But their working conditions and pay is light years ahead of decades past. Publicly traded companies wouldn't dare take that risk of not creating clean, safe, fair work environments. A recent example is of Apple (AAPL) that produces many of their products through the Taiwan manufacturer, Foxconn (HON HAI). They were chastised—incorrectly—for unfair/safe labor practices and environments. The public disturbance was all for naught as undercover cameras revealed pristine working conditions for all. Is this always the case? No, but with nearly all workers armed with cameras and social media accounts, the word spreads quickly and offenders face legal and public retaliation.

Corporate Earnings Growth

We often hear and read of an 'overpriced market'. Well, is it? Let's look.

If the gauge of 'normal' is a company's historic mean Price to Earnings (PE) and Price to Book (PB), then we need to ask, are we paying more (for a stock) than is normal, relative to what a company is earning? For example: If we normally pay 15 times the earnings of a company, are we currently paying more, or less than that? In the case of the railroads CSX (CSX), Union Pacific (UNP), Canadian Pacific (CP), Canadian National (CNI), Norfolk Southern (NSC) and Kansas City Southern (KSU), they're all riding right around 10x earnings. Kinda nice. So, if the company is in good shape, provides something everyone needs, and, is a bargain, then we buy more. With rail, they continue to transition away from transporting coal and move to moving more industrial and personal product (including my mattress cover) each year. To see what's really going on, Greenbriar (GBX)—the manufacturer of railcars—has received 6,000 new rail car orders...in the past QUARTER! Year-over-year performance increased 17%, and is not slowing. Why? Developing countries. Companies are producing products less expensively as developing countries open their borders to outside corporations. Those products need to reach buyers. Rail is moving more and more imported and exported goods both TO the Kyrgyzstans but also FROM the Kyrgyzstans.

The Amazon Effect

There has been a lot of talk recently claiming Amazon “is ruining retailers.” Well, life has changed in how we all shop. It used to be walking through the Yellow Pages was our first stop. Not no mo. Google (GOOG) took care of that. We used to turn the ignition key to a car to head to the local mall. Well, malls are DOA. With driving becoming nearly impossible in larger cities, the buying public no longer wants—nor can afford the time—to put up with the hassle. Enter, Amazon Prime. To the contrary of concerns of an overbearing Amazon, they have, actually, opened *more* doors to business of all sizes and locations. The widget maker in the smallest of cities, Peck, Kansas, for example (yes, I looked it up), can now play with the big boys and is no longer limited to their regional market. They now have access to markets nationally and, yes, some day, even to Kyrgyzstan. One can get *anything* in a few days. Anything, including a mattress cover from Kyrgyzstan. As Kyrgyzstan continues to expand, it is going to completely skip the following:

- The Pony Express, Wells Fargo Wagon, Sears, Montgomery Wards, land lines, cars, malls

...and move directly to selling and purchasing through, wait for it...who else? Amazon and Alibaba (BABA). At first for the basics, yes. But as the Kyrgyzstan’s economic/industrial/textile bases expand, they’re off to the races; just like the economies of Vietnam, Laos, and Cambodia when they were at their infancy. If Kyrgyzstan really wants to see where they’re headed, then look no further than Estonia, the richest of the former SU.

The Future

There will always be emotional challenges in our economy and market. It’s what makes it interesting. But currently, and for the foreseeable future, population growth and developing nations’ production will carry us through, and beyond, the short-term turmoil. Corporations are planning 5, 10, 20 years ahead. General Electric’s (GE) newest wildly efficient jet engine, for example, will be strapped onto Boeing’s (BA) planes next year to move this new group of consumers—and the products they produce/consume—to the most remote places. GE spent nearly 20 years planning for the need to manage the increasing public mobility and EPA pressure to reduce CO2.

The market will continue to expand in step with growing public buying habits. Those habits and the increased number of clicking index fingers, is growing exponentially.

It’s never a future without bumps, but overall, it will continue its historic trajectory.

Cb

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C.Brandkamp Investment Management
422 West Riverside Ave. Suite 909 · Spokane, WA 99201 · 509-990-2323