

A New Era for Investments

By Paulo Guedes

Brazil continues to be a singular country. Having grown at mediocre rates during the last two decades of the global capitalism victory parade, the country looks to be starting a long cycle of expansion at the exact moment when the American economy seems to be arriving at the end of its super-cyclical expansion.

In the last two decades, we were paradise for the renters and hell for the entrepreneurs. We are now entering an age, with falling interest rates, when the government's transfer of income for the renters is coming down, and the investment of fixed income securities is shifting to stocks. The stock market has been rising due to the pressure on the price of existing assets. A stimulus for the development of new enterprises has resulted, since the startup cost is below the price of existing businesses.

The problem is that the change is occurring in an abrupt manner. Important steps are being overlooked. Normally, an emergent company would receive specialized fund resources that would prepare it in terms of better governance and greater transparency for its eventual arrival on the stock market. Moreover, after years of preparation for its future arrival on the stock market with partners around the world, these companies would make their papers available to the investors via the distribution channels of the great banks.

However, with the abundance of liquidity – due to the fall of the internal interest rates and Brazil's eligibility to be included within global portfolios - and the scarcity of companies listed in the stock market, beyond new enterprises of exceptional quality, there is also an irresistible temptation to present investors with any entrepreneurial carcass. After all, having survived the bullets of inflation, the blade of the interest rates, the crushing weight of taxes, and the blockade of savings and the exchange crises, we are dealing with a survivor that deserves respect. However, he doesn't necessarily deserve investors' money; therefore, there lays the difficulty of escaping from the formidable mistakes in this fishing net.

This process is still very experimental. Without a doubt, the best work of the stock market will give companies the means to implement large scale investments for the long-run. This mechanism is part of the regeneration of the Brazilian banks' function. The financial sector had been deformed by its daily mission to churn, on the basis of overnight deposits, a colossal public debt in the midst of the hyperinflation. Due to the convenient financial architecture, the government granted much to its faithful companions in this visit to hell. The efforts of the financial system to proceed in its basic functions of evaluating, selecting, filtering and providing resources to the new promising enterprises is relatively new.

It appears that there will be many mistakes in this process, thereby aggravating the inherent risks of the stock market. There existed a dam holding back waves of investment and now this has been suddenly breached. The turbulence is not only in the markets, but

also in the form of a ticking-bomb in some individual stock issues. The danger rests on a tripod formed by sagacious entrepreneurs; bankers in search of commissions overlooking stages that would be fulfilled by specialized funds; and finally, investors and managers of resources in high end markets that arose because of the scarcity of new commercial papers.

Everything can function very well for some time. However, from an initial phase in which the scarcity of papers mattered more than the intrinsic qualities of each company, and almost all the launchings were a success, the future wave of success will depend on a more appropriate tool.