LAWSON KROEKER
INVESTMENT MANAGEMENT

As We See It

WORLD TRADE KEEPS GROWING AND THE WORLD GROWS SMALLER

Trade is naturally local. Who would drive from Omaha to Grand Island to buy a product that was available for the same price at the Westroads in Omaha?

Yet, over the centuries, trade has become increasingly international–traversing greater distances and becoming more and more complex. Wine, olive oil, and wheat moved around the Mediterranean from as far back as the early Greek civilization. The Silk Road from China brought silk to Europe centuries ago. Today, hides from Nebraska cattle go to Brazil and come back as shoes. We eat grapes from Chile and apples from New Zealand.

Given the local bias, why does trade continue to expand? Risking oversimplification, trade grows due to three circumstances: the desire for a **product** that is not available locally, the **knowledge** that such a thing does exist, and the means to **transport** it from one place to another. Trade is a three-legged stool: product, knowledge, and transportation.

Consider for a moment the vast variety of things on earth and how man has manipulated those things into an even greater variety of products. Iron ore is made into steel which in turn is made into everything from the inner workings of a Rolex watch to huge, ocean-going oil tankers.

Look how knowledge (which creates needs) has grown and spread. We began first with the spoken word which was followed by written language. Printing followed and greatly increased the spread of information. Then technology stepped in with the telegraph, radio, television, computers, and satellites all used to spread information and knowledge at an even faster rate than ever. In fact, knowledge itself has become a product.

And finally, think about transportation. Camels on the Silk Road, sailing ships from Lisbon around the Cape of Good Hope to Goa, steamships, railroads, trucks, and airplanes–distance has shrunk. Throughout the centuries trade has grown. Trade will continue to grow, but with interruptions. The most likely causes of interruptions are wars, recessions, and trade barriers. The latter is illustrated by the auto company executive who buys his wife a diamond from South Africa and wears a suit made of Australian wool but does not want anyone to buy an automobile made in Japan.

Yes, there will be interruptions, but the key word is interruption–which implies a temporary break rather than something permanent. Diversity of product, knowledge, and transportation will continue to drive the expansion of international trade.

DOWN IN OLD MEXICO

Following the San Antonio conference there was an AIMR sponsored trip to Monterrey, Mexico. I was one of approximately fifty analysts who made the trip. We visited cement, corn milling, plastic film, and float glass plants and also toured a brewery. We met with the senior management of all of the above. We also had sessions with the senior management of Monterrey's leading newspaper and a major Mexican broker/underwriter. Here are some personal observations.

First of all, if we think "foreigners" are tough competitors solely because they have cheap labor, we are just plain wrong. "Them thar Mexicans ain't down there pattin' out tortillas by hand." Certainly the plants we visited were selected, but to my untrained eye all appeared to be state of the art.

For example, take the float glass plant. It manufacturers sheet glass similar to that used on the outside of our office building and many others around the 90th & Dodge area. The process was first developed by Plinkington Brothers in England. Sand and other ingredients are fed from huge storage hoppers into an enormous gas fired furnace where they combine to form molten glass. The molten glass is then fed onto a bed of molten tin (which floats the glass down the line while smoothing and cooling it). When cool enough–still moving–the glass is mechanically scored and broken into desired sizes. At the end of the line, about three blocks long, there were workers using overhead lifts, mechanical pulleys, and big suction cups to lift the glass and move it to racks preparatory to shipping. The plant runs day and night all year long. They expect to have to shut it down in about ten years to reline the furnace. Except for our guides we saw very few people.

All of our guides, plant and line managers, were selected because they spoke at least some English. A few had to grope for the right English words, but they knew the answers to questions such as the temperature in the kiln and the speed of the plastic film line.

The senior management officers, CEO's, and CFO's who spoke to us did so in *Business School* English. They knew rate of return, turnover, and capital ratios. They did not use notes. Their ability to discuss their companies compared very favorably with company presentations before analyst groups in the U.S.

We were told the south of Mexico is more backward and less developed. Maybe, but Monterrey is a modern, developed, industrial city that can compete flat out with its neighbors to the north.

"PUT DOWN YOUR BUCKETS WHERE YOU ARE"

There is a story, or perhaps a fable, about a ship that was becalmed out of the sight of land near the mouth of the Amazon River. The ship was low on water. So when another ship came into view (it must have been a steamship) the distressed sailors signaled that they needed water. The steamship's crewman replied, "Put down your buckets where you are." And indeed, the flow of the Amazon was so tremendous that at its mouth, even out of the sight of land, the water was fresh and potable. Or at least it was once upon a time before pollution.

When investing, it is only good sense to stick to what we know–that is, to put down our buckets where we are. This does not mean that we confine our work to local or parochial investing. We simply must recognize that real life and, therefore, investing is more and more one world. We have to expand our knowledge and find ways to participate in international markets.

As we see it, one way is through the American companies we already know. For example, 45% of Pfizer's sales are foreign. Standard Commercial processes and trades leaf tobacco and wool worldwide. Southwestern Bell owns 10% of Telmex (Telefonos de Mexico). Sonat's subsidiary, Sonat Offshore Drilling, Inc. is a world leader in the harsh environment and deep water oil and gas drilling. Of Raychem's $1,250 million revenues in 1991, $786 million were international, and 42% of Lubrizol's 1991 revenues came from Europe and the Far East. We think it is just sensible to let the management of such companies deal with foreign currencies, different legal systems, languages, and tastes.

We have ventured into foreign domiciled companies where we feel we understand the business and have access to good reports and analytical contacts. B.A.T. Industries is British and Seagram Company Ltd. is Canadian. Incidentally, both of these companies have investments in the United States.

Caution is in order when going outside of your own country to invest. The laws and language are different. The social customs, morality, religion, business practices and relationships are all different. On the Monterrey trip, a broker from Mexico City told me that much of the business in his country was controlled by a few families by means of cross investments, interlocking directorships, and intermarriage; however, that fifteen minute conversation did not fully inform me about who runs what in Mexico. It did remind me that we really do need to be aware of such local realities before we invest.

In a sense we put down our buckets where we are. We realize, however, that where we are is a smaller and smaller world.

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