



A Brazilian Miracle: My Family Stops Installment Buying

Pursestrings

By Jim Pursley
President and CIO, Gaia Capital Management, Inc.
www.gaiacapital.com
8/28/17



Dear Friends,

Here in Brazil many consumer goods are priced as if they will be bought on credit, with a small down payment and several periodic payments to complete the purchase. Parcelando, as they call it, is popular in no small part because services here are cheap and goods are expensive. Goods expense comes from high government taxes on “stuff” and an economy pretty much closed to the world because of high import duties. So people buy on installment. So what’s the problem?

First, a lot of people don’t complete their payment plans; after all, they have the goods and beyond dingy credit records stores have no recourse. So stores pump up their prices to cover bad debt. My family used to parcelar everything until I came along. Well, ten years into our marriage Eliene may have finally broken the habit of parcelando. She and the kids had a clothing bill of R\$600 – about \$200 in US dollars. I advanced them R\$450 of the clothing budget and suggested that Eliene offer it in lieu of the R\$600 bill facing her. The merchant accepted it gladly. Eliene got an R\$150 discount on the inflated price just for the asking. How might this little story help anyone on a tight budget pay as little as possible for items while still getting them when they are needed?

In the States, credit cards are the equivalent of parcelando as you get the bank’s money up front. Unfortunately, you end up paying substantially more than the cash price by the amount of interest you pay. Try saving a little bit each month toward fairly large purchases. Then use your credit card to give you another 25 days or so of other people’s money for free – and pay off the balance, or at least reduce it to almost zero. You won’t get the super rush that Eliene got, but you will remove a source of risk from your life. If you have no credit card balance you can’t get late charges and increasingly nasty letters impugning your character. Even better, you will have more money overall because you have bought your goods free of interest and credit card charges. You might even be able to bargain a small cash discount in the process. You could always use a debit card, too, if you don’t want to carry cash.

The opinions contained in this report represent the author’s current knowledge and are based on sources known to him at the time of writing. Such opinions are subject to change at any time and are presented for educational value. Any other use, such as investment solicitation, is inappropriate and absolutely unintended by the author. Readers should keep in mind that past performance does not guarantee or predict future results and must evaluate information herein presented.