

# ECONOMY

Time to find good, stable defensive stocks in which to invest



## Think Strategically: The Imperfect Revolution

### Economy Expected to Return to Growth in FY19 From Stimulus of Federal Disaster-Relief Funding

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#### The Week in the Markets: Tesla tweet turmoil and defensive stocks

Market indicators closed with mixed results, with the Dow Jones Industrial Average standing at 25,664.32, or a gain of 351.18 for the week. The S&P 500 closed at 2,850.13, or a gain of 16.88 for the week, and the Nasdaq closed at 7,816.33, a loss of 22.79 for the week. The results come from a mixed bag of news. On one side, we have the bizarre Tesla tweet from Elon Musk, which has caused stockholders to dump the stock in droves.

To make matters worse, Musk doubled down and gave a lengthy interview to the New York Times in which he discussed his “excruciating”

personal toll with the Tesla turmoil. Tesla, like many companies that provide an elusive idea or a vision that becomes a reality—in this case, fine electric automobiles—can often become more valuable than its actual financial statements may be able to support. Tesla has not had a full-year net income since it was founded, and that was 15 years ago. This fact, combined with the ambitious Model 3 project and its outsize production goal, has taken a toll on Musk.

Even as Tesla is closer to achieving its visions and goals, it seems absurd to throw away its reputation with an ill-timed tweet about taking Tesla private at \$420 per stock and alleging the funding was secured. The

ensuing repercussions this tweet has had on the company stock took it from \$379.57 on Aug. 7 to \$305.50 on Aug. 17, for a loss of \$74.07 or 19.5 percent. Usually, discussions about changing company structures, a merger & acquisition transaction, deals or any other item that affects its stock would be carefully cleared with its board, lawyers and the Securities & Exchange Commission. Not doing so may cost Musk his company.

As most investors continue to watch the ongoing tariff wars with China and the European Union, and the Turkey meltdown, they are attempting to invest in stocks and/or sectors that are less volatile and may fare better in this market. Some of the favored

industries include utilities and consumer staples that have been outperforming as the S&P 500 continues to increase in value and is now less than one percent from its record-breaking high established in January of 2018.

This is usually the way to find good, stable defensive stocks, which are now priced at quite agreeable valuations with stable dividend yields.

**On further analysis, we favor the following companies as defensive stocks.**

**PG&E Corp.:** Provider of natural gas and electric service to 16 million clients. With an attractive yield and reduced price from its high of \$69.35 on Aug. 17, it is an attractive play.

**Edison International:** Provider of industrial and commercial energy services. With an attractive yield and reduced price from its high of \$79 on Aug. 17, it is an attractive play.

**Kraft Heinz Co.:** Selling Oscar Mayer to Heinz, Planters, Velveeta to Jell-O, this is the perennial defensive stock. The stock was as high as \$75 per share in February, and this may be an opportune time to explore it.

**Johnson & Johnson:** Sells Band-Aid, Tylenol, Listerine, among others. A robust stock, it had hit its all-time market high of \$144.35 on Oct. 23, 2017—thus the current price is attractive.

**Sysco Corp.:** Sells frozen, dry and canned foods, fresh meat, dairy and seafood. SYX has been growing its customer base. We like the stock even though it is trading at market highs.

#### What about Defensive Stocks?

Seeking defensive stocks is an attractive addition to a diversified portfolio because defensive stocks usually provide steady dividends and stable earnings regardless of the state of the stock market.

Since the market bottom in 2009, the S&P 500 has increased 300 percent. With interest rates increasing and the economy moving into the later stages of a growth cycle, this is an opportune time to incorporate these stocks in your portfolio.

#### Final Word: The Imperfect Revolution

Revolution is defined as the fundamental change in the way of thinking about or visualizing something: a paradigm shift.

While our current Revolution is partially the result of an act of nature combined with our fiscal bankruptcy, and thus an Imperfect Revolution, we see lots of actions that will dramatically change the thoughts and actions of Puerto Ricans for generations to come.

Puerto Rico's economy remains in a deep downturn following last Fall's hurricanes Irma and Maria, and our economy shrank at quite a fast pace due to their aftermath. Some analysts have pointed out that our economy may return to growth by fiscal year (FY) 2019, and we have seen some impressive numbers concerning unemployment, labor participation, sales of cement and increases in construction investment that support this view.

Gov. Ricardo Rosselló reported last Friday that the labor-participation rate had increased to 41 percent, or 1,004,000 people in the labor force, and unemployment was registered at 9.1 percent, according to La Fortaleza, which is the lowest unemployment figure in 50 years.

The Puerto Rico economy is mostly expected to return to growth in FY 2019 due to the stimulus from federal disaster-relief funding. Puerto Rico's economists estimate the gross national product (GNP) will expand 6 percent in FY 2019 and 4 percent in FY 2020, with this figure mainly dependent on how fast federal funding is deployed and utilized. So, the statistics could very well change or be inverted.

We must use every opportunity to create a new economic development model based on exports, and on that note, we have seen a significant jump in Puerto Rico companies seeking the act to promote the export of services, better known as Act 20, which is quite a development, and is vital for our economic growth.

These recent developments, combined with the recent consolidations of several impactful agencies—which will result in the best attempt to reduce the size of government while eliminating bureaucracy—is providing the government the incentive to its imperfect revolution that is engulfing Puerto Rico.

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#### Tesla Financial Overview

Values (in \$ Millions)	2013	2014	2015	2016	2017
Revenues	2.01B	3.2B	4.05B	7B	11.76B
Cost of Goods Sold (Cogs) including D&A	1.56B	2.32B	3.11B	5.43B	9.51B
Depreciation & Amortization (D&A) Expense	106.08M	231.93M	422.59M	947.1M	1.64B
Gross Income	456.26M	881.67M	933M	1.57B	2.25B
SG&A Expense	517.55M	1.1B	1.64B	2.24B	3.85B
Research & Development	231.98M	498.5M	717.9M	834.41M	1.38B
Interest Expense	22.13M	100.89M	118.85M	198.81M	471.26M
Interest Capitalized	3.5M	12.8M	41.5M	46.7M	124.9M
Pretax Income	(71.43M)	(318.44M)	(875.62M)	(746.35M)	(2.21B)