



Think Strategically: with the Dow at 20,000, 7 things every investor should know

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This week the Dow hit the elusive 20,000 mark on January 25, 2017, this after coming within less than ½ of 1 % earlier this month, As the Dow Jones Industrial Average crossed this record level. This milestone is being hyped, celebrated, advertised, honored among other things by specialized media outlets such as Bloomberg and more mainstream media like CNN or NBC. Is there longer-term significance? Should investors really care? The answer is both: **Yes, and No.**

Without considering the importance level, you place on the Dow 20,000, there are seven things every investor should know about Dow:

- 1) **The Dow is more of an emotional constant.** most traders love the big and impressive numbers preferably increasing and so do most investors.
- 2) **The Dow Jones Industrial Average is not ideal when looking for analytical content.** - as the index covers a very narrow set of stocks and therefore is lacking in representation.
- 3) **Dow is heavily mentioned when it comes to headline information about stock market performance-** Both you should know that it is not the only U.S. index flirting with record levels. The Standard & Poor's 500 and Nasdaq are at or near their all-time highs and both are better representations of the market.
- 4) **The economy is better, and expectations are higher-** with the unemployment rate at 4.7% with more than 13 million new jobs in the markets and the prognosis that this economic rally will continue.
- 5) **The Dow in perspective is 20,000 enough?** Due to the power of compound interest, 100-point – or even 1,000-point – swings in the Dow don't

mean what they used to ink about it this way: The Dow first crossed the 1,000 mark in November 1972. It would take more than 14 years for the Dow to gain the next 1,000 points, which it accomplished when it first broke 2,000 in 1987. In contrast, the Dow hit 19,000 on Nov. 22, and is approaching 20,000 less than a month later.

- 6) **A few minor changes in the index's compositions make a big difference.** Further adding to the arbitrary nature of the Dow, the index's 30 constituents aren't set in stone like many people might think.
- 7) **Should we pursue the S&P 500 as a Diversification strategy?-** believe it's time to rethink how to diversify, as bond yields rise and U.S. Treasuries' inverse relationship with equities weakens. So DOIA is too narrow to be viewed as a diversification strategy. It is more effective to seek a diverse basket of investments to pursue a diversified strategy.



We should have little doubt about the signaling outcomes. Already, The Dow 20,000 has become front-page news of all media. Most investors hope that this milestone will act as a steppingstone seeking diverse participation of the general investor base most notably millennials in particular, since they are the focus of growth in the new investment world. After all, an increased investor bases are the contributors to a fundamentally healthy and less volatile market. The problem is that it may take a lot more than headlines and social media likes for this to happen.

Moving on to Puerto Rico we see that most Puerto Rico securities, including sales-tax debt, have gained in value since enactment of the PROMESA law. Senior Cofina capital-appreciation bonds maturing in 2054 -- which don't receive interest payments until the final maturity --last traded Friday at an average price

of about 10.74 with a yield of 6.04 percent, according to data compiled by Bloomberg. The Cofina and GO's have been fighting over the sources on income and how they would survive these filings towards a filing a lawsuit by group of hedge funds that hold general obligations. Those investors asked a court to stop Puerto Rico from allocating sales-tax revenue to repay Cofina debt. A portion of the island's sales-tax receipts are dedicated to paying Cofina bonds. General-obligation investors believe the revenue—should go—first to repayment of their securities because the commonwealth's constitution stipulates that such debt should be paid before other expenses. Lastly, on Saturday, Jan. 28, the FOMB approved the request to extend the deadline to Feb. 28, in which to present the new administration's fiscal plan, such that the FOMB may consider its certification no later than March 15, as well as to extend to May 1 the stay on litigation against the government of Puerto Rico provided under Promesa.

About Birling Capital Advisors LLC

*Birling Capital is corporate advisory & consulting firm that **offers broad corporate finance & advisory services** focused on the needs of institutional, government, corporate, middle-market companies, family corporations and their owners, which are our focus markets.*

Our firm combines our senior leaders' more than two decades of advisory, consulting and transactional experience in corporate, healthcare, retail, education, insurance, P3's, banking and government markets with industry-focused financial operations and strategy professionals, enabling us to effectively advise our clients through their most critical corporate finance transactions.

Prior to founding Birling Capital, our firm's principal worked for over twenty-five years in corporate, consumer, investment banking and government areas developing a unique set of skills to suit our focus markets. Sharing a deep rooted passion for providing quality advice to our clients that will help them to build enduring businesses and to accomplish their most critical strategic objectives.

Francisco Rodriguez-Castro, President & CEO

Mr. Rodriguez-Castro is President & CEO of Birling Capital since its creation and manages all aspects of its practice. Mr. Rodriguez-Castro with over 25 years of experience has been a key executive in government, global, multinational and public companies as well as a key corporate advisor to multiple entities in a diverse array of market segments. He has participated in structuring over \$10 billion in Municipal Finance, Corporate, Commercial, Asset Based, AFICA and Mergers and Acquisitions transactions.

Mr. Rodríguez Castro has been Managing Director at UBS, President & CEO of the Economic Development Bank and held senior lending positions in the corporate banking sector. He is also a key leader in promoting the private sectors participation in the formulation of public policy of the country supporting the governments in its efforts to achieve and maintain sustained economic development for Puerto Rico. In addition to his management roles he was the founder of the Private Sector Coalition a not for profit association