



3 FORECASTS,
3 THEMES &
3 REACTIONS FOR

Every Puerto Rican Should be
Discussing the Status!

As we enter this sixth month of confinement due to the COVID-19 pandemic, I think it is a good moment to reflect and evaluate everything that has been happening and how our lives have changed. For one, I, being the optimist that I am, have been trying to identify the “silver lining” within all these events. I have to confess it has not been easy, but have to admit that, probably, all this has forced us to do things differently. And has also forced us to leap bound and adopt new technologies and ways of doing business that probably, in our comfort zone, we had not even considered. So, for whatever it’s worth, let’s look at the positive aspect and embrace all the good things that this unfortunate event has brought us.

Please keep safe and enjoy this issue of our Zenith Investor.

*Miguel L. Vargas-Jiménez
Executive Director & CEO*

Birling Capitals' goal is to provide you with expert opinions and commentaries from all over the world to our readers with a detailed view of the economy, markets, and geopolitics. We also offer you our outlook for Puerto Rico's economic progress and the United States to allow you to plan with a 3 to 5-year window.

We invite you to examine this month's insights to help you stay ahead of the curve.

Thank You for your continued support.

*Francisco Rodríguez-Castro
President & CEO
Birling Capital Advisors, LLC.*



“Most People do not care how much you know, until they know how much you care.”

As we publish The Zenith Investor for September 2020, we must discuss the current fiscal and political situation of Puerto Rico. Let us begin with the fiscal scenario, the Gross National Product for Puerto Rico in 2019 was \$70 billion at the current economic index, which equated to 1.7%. Since the Pandemic began, our economy is has contracted due to the severe exogenous shock. The expectation is to close 2020 with a -6.0% contraction. However, let's imagine how Puerto Rico would look like with real growth of 4% GNP.

For 2019 Puerto Rico achieved a 1.7% real growth rate that translates to the economic growth of approximately \$1 billion. If Puerto Rico had grown at 4% adjusted for inflation, the economy would have increased by \$2.8 billion in practical terms.

Suppose for a moment that we grew our economy at that rate for five years, Puerto Rico would create about \$15 billion in additional revenue during that period. These are indeed approximate numbers, but they provide orders of magnitude that are reasonable, achievable if we develop a plan to reach our goals. Let us discuss how much Puerto Rico has lost in terms of "Ease of Doing Business" and overall competitiveness.

According to the recent Doing Business 2020 study, Puerto Rico is in position # 65 of the countries with the greatest facility to do Business. **However, far from being positive, we have fallen from #18 in 2006 to #65 in 2020.**

To overturn this scenario, we have developed a path to Transform Puerto Rico that would, in turn, create more than \$15.5 billion in economic activity, wealth creation, job growth, and education. Before analyzing the benefits of demonetizing thousands of Government contracts and businesses that can now be offered either free and/or online.

There are more than in Puerto Rico 33,000 confirmed cases of

Coronavirus nearing 450 deaths, making no mistake; the economy has taken an insurmountable hit in terms of GDP decrease and total employment, with a cost surpass \$10 to \$14 billion.

My vision is to implement a Transformational Plan that begins with the Puerto Rico FIRST Goals. The Puerto Rico FIRST Goals are a vision that must be communicated, discussed, and executed. Every citizen must understand, respect, and protect the goals and should be followed regardless of which party or ideology has control of Puerto Rico.

The Puerto Rico First Goals are as follows:

- 1. Transform Puerto Rico into a country with robust economic development and sustained growth of 4% in the next four years-** This growth rate is similar to the average annual real growth of the Puerto Rico economy from 1950 to the present. That and the fact that it is a growth rate that our peers and competitors have surpassed in recent years suggests that it is an achievable goal. Previously, the investment that would be necessary to generate this growth rate in four years was indicated.
- 2. Transform the industrial structure in which manufacturing, research, development, and employment activities are focused on the knowledge-based economy representing no less than 25 percent of the gross national product in 10 years-** in Puerto Rico, direct employment in high technology manufacturing (approximately 5.0% of total work) and employment in advanced services directly related to knowledge production (about 10%) is close to 15% of full employment. The goal of reaching 25% within ten years is not unrealistic, particularly when the existing advanced services base is taken into account. A reasonable and

achievable goal is that these activities should generate no less than 25% of GNP within ten years. Achieving this metric is essential for Puerto Rico to assume its role as a competitive economy globally. A knowledge economy that grows at least at the assumed general economy rate of 4.0% would generate an additional \$ 3.5 billion per year.

- 3. Create 300,000 new jobs in the private sector in the next six years.**
- 4. Increase our labor participation rate to 55% in six years.**
- 5. Reduce the unemployment rate to 5% in six years-** Goals 3, 4 & 5 work in tandem, estimate the number of new jobs that would have to be created to achieve increases in the participation rate to 50% and 55%, some 15,000, was presented. Although faced with an economic reality in which jobs have been lost in the past four years, and additional jobs will indeed be lost this year, it would seem an impossible goal. It is not, and the economy of Puerto Rico has generated that number of jobs in several years. Currently, the employed workforce is 852,292 if we create 300,000 new jobs, this would mean that our workforce would be 1,152,292, which is higher than our most significant recorded amount of 1,032,000 in 2007, assuming the current median household income of \$ 20,873.80, which translates to \$ 6.2 billion in new salaries.
- 6. Close what has been called the "development gap"-** the percent of GNP that represents consumption and the percent that represents an investment that in Puerto Rico far exceeds that of our peers. The structure of income in Puerto Rico (65% of people's revenue arises from three sources: public employment, federal transfers, and the informal economy) and how the tax system has been

structured has stimulated consumption and not savings and investment. Placing ourselves at the same levels as our competitors in this regard will require profound changes in the tax system and an educational effort that transforms the culture of consumption to one of investment.

7. Move to a government structure characterized by the following: employing no more than 15% of the employed workforce and a Consolidated Budget that does not exceed 25% of GNP- Currently, these two figures are around the 28% and 50%, taking into consideration that the Consolidated Budget includes public corporations. Although this objective could be interpreted as one aimed at reducing the Government, which should be a social objective, the mere fact of growing at a 4.0% rate, without increasing government participation in employment and economic activity, would facilitate its achievement. We must extract the Government from any operation or service that the private sector has a counterpart to carry out efficiently. That means that we transfer toll roads, ACCA, Insurance Fund, PRASA, PREPA, Port Authority, Construction Authority, and many other services to the private sector.

8. Increase the average per capita income by 30% in six years, from \$ 20,873.00 to \$ 27,134.00- translates into \$ 7.2 billion of additional revenue, policies aimed at improving the workforce's quality and facilitating market entry formal work, and we begin to provide much-needed wealth to our fellow citizens.

9. Transform the educational system from primary to university level into one

focused on entrepreneurship, trades, and Transformation-

This is critical to achieving a more focused educational system focused on entrepreneurship and wealth creation rather than educating students to seek work.

10. Measure ourselves with all international metrics, mainly the Ease of Doing Business-for Puerto Rico, improving our ranking represents an excellent opportunity to attract a wide variety of companies develop vast amounts of wealth, rather than large amounts of poverty.

Puerto Rico Rankings

2006	#18
2007	#19
2008	#31
2009	#33
2010	#45
2011	#47
2012	#43
2013	#41
2014	#40
2015	#47
2016	#57
2017	#55
2018	#64
2019	#64
2020	#65

In less than 15 years, we have dropped 47 positions, a deterioration of more than 261%.

Puerto Rico needs and deserves, in addition to good, well-paid jobs, a dynamic and prosperous economy, with clean and accessible electricity. It also requires an efficient, responsive, service-focused, and smaller public sector.

For a decade, we avoided any of these things, and we have seen a deterioration in our institutions.

Puerto Rico has all the necessary tools to realize its potential, grow our economy, and, at the same time, break with the fiscal recklessness that has hampered our economic evolution.

There is a need to have a clear vision of the economic future of Puerto Rico and to consider not only the size of the economy but also its essential characteristics. This vision must be implemented and followed no matter what party or ideology is in control of Puerto Rico.

The economy and the Transformation of the country which is inspired by one that contains the following elements:

- High levels of well-paid and stable employment in the non-governmental sector
- A social culture focused on economic development
- The ability to insert itself into the global economy effectively
- Flexible governance structures adapted to the requirements of the worldwide economy
- A competitive, innovative local business sector with export capacity
- A diversified economy, with high levels of productivity
- Levels of social welfare comparable to those of the most advanced countries
- High quality of the environment and excellent quality of life.

Achieving these aspirations should be done by following the following pillars that should be the ones that define how the process of defining and implementing development policy should be organized.

Forecast 1: The Top United States Banks to continue to suffer during the Pandemic

The Top U.S. Banks had seen some of their best performances under the Trump Presidency from 1.20.17 until 2.28.20 when the Pandemic officially began to hit the United States.



The confluence of the Pandemic, the loan loss reserves of \$32.9 billion, the digitalization of COVID-19, and several other changes that have affected the banking industry have pushed Transformation to the top of the list of today's business leaders. The rapid momentum of all technological changes continues to alter the operational landscape of all businesses in all sectors. These disruptive forces have rendered the era of once-and-done Transformation a thing of the bygone era.

As we perform an analytical study of the Top U.S. Banking Sector. We examine the top 6 U.S. Bank holding companies that are part of the Birling Capital U.S. Bank Stock Index (BCUSBI), a market value-weighted index composed of the top (6) Bank holding companies headquartered in the United States.

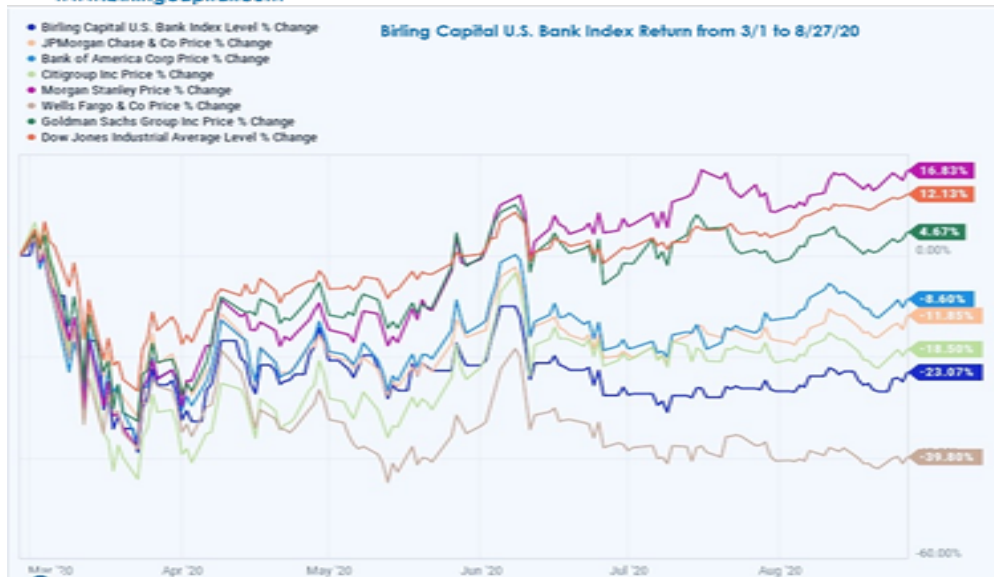
From January 20, 2020, until February 28, 2020, the Top Banks performed as follows:

- J.P. Morgan had a return of 38.77%,
- Bank of America 25.88%,
- Citi 13.10%,
- Morgan Stanley 5.73%,
- Goldman Sachs -13.54%,
- Wells Fargo -25.82%.

We examine how each of the bank holding companies' stock has fared once the Pandemic began and evaluating their performance from 3/01/20 to 08/27/20 when we compare the Birling Capital U.S. Bank Stock Index (BCUSBI) to the Dow Jones Industrial Average, you will note that the return on the BCUSBI was **-23.07%** from 3/01/20 until 08/27/20, and the Dow Jones Industrial Average return was **12.13%**.

The Birling Capital U.S. Bank Stock Index includes the following institutions, ranked according to their performance during the Pandemic

- **Morgan Stanley (M.S.)**, its stock closed at \$52.61, achieved a total return of 16.83%.
- **Goldman Sachs Group (G.S.)**, its stock closed at \$210.15, achieved a total return of 4.67%.



- **Bank of America (BAC)**, its stock closed at \$26.05, achieved a total return of -8.60%.
- **JP Morgan Chase (JPM)**, its stock closed at \$102.35, achieved a total return of -11.85%.
- **Citigroup Inc. (C)**, its stock closed at \$51.72, achieved a total return of -18.50%.
- **Wells Fargo & Co (WFC)**, its stock closed at \$24.59, achieved a total return of -39.80%.

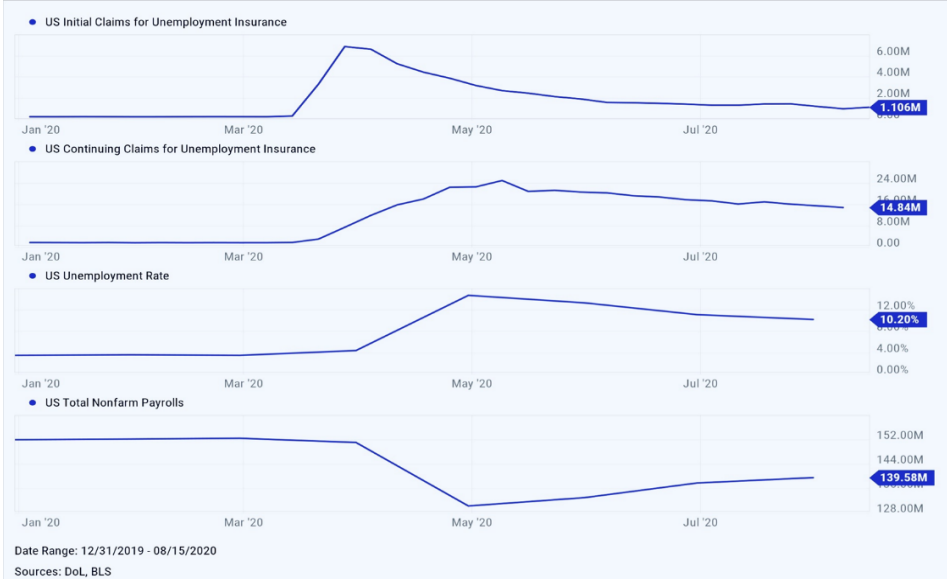
Although many banks have started to embrace new digitalized operating models, its services remain with a foot in the past. These changes have been primarily designed to protect their franchises and offer their clients alternatives to their brick and mortar operations. However, we must be vigilant that a new operational banking model will emerge with renewed business agility, completely digitalize, and position the banking sector for future growth.

Forecast 2: The U.S. economy is headed in the right direction:

- **U.S. Initial application for Unemployment:** were reported at 1,006 million, a decrease from 1,104 million last week, a reduction of 8.88%.
- **U.S. Unemployment Rate:** fell is at 10.20%, compared to 11.10% last month and 3.70%

- last year. This is a decrease of 8.10%.
- **U.S. New Single-Family Houses Sold:** U.S. New Single-Family Houses Sold- rose to 901.00K, up from 791.00K last month, an increase of 13.91% from the previous month.
- **U.S. Durable Goods New Orders MoM-** rose to 11.19%, compared to 7.57% last month.
- **U.S. Automobile Manufacturing Shipments** increased to 6.119 Billion, up from 1.692 Billion previous months and down from 9.179 Billion one year ago.
- **U.S. Index of Consumer Sentiment:** rose to 74.10, up from 72.50 last month and down from 89.80 one year ago. This is a change of 2.21% from the previous month.
- **U.S. ISM Manufacturing PMI:** rose to 54.20, up from 52.60 last month and up from 51.20 one year ago. This is a change of 3.04% from the previous month.
- **U.S. Existing Home Sales:** reported to be 5.86M, up from 4.70M last month, a change of 24.68% from last month.
- **U.S. Real Disposable Income:** rose to 16.58T, up from 15.06T last quarter and this is a change of 10.12% from the previous quarter.

The Labor Department reported on August 27 that Initial Claims for Unemployment Insurance were reported at 1,006 million an decrease from 1,104, last week a reduction of 8.88%.



The U.S. economy is always evolving, and the hit the Pandemic provided, tested every single piece in the economic puzzle. The strategy for achieving a prolonged recovery must adapt to meet the new challenges that arise; this is a permanent set of actions that must drive our economic focus. We can see the advantages of a robust labor market, particularly for many in low and moderate-income communities, and that a robust job market can be sustained while providing a big enough safety net to help those in need. One thing all American has in common they would instead work hard every day than be sitting idle at home

Forecast 3: President Trump on route to lose the re-election.

As both the Democratic and the Republican National Conventions ended both made attempts to provide both their base and undecided voters the platform and solutions that would allow them to get elected. One of the items we want to compare is how much interest there was in watching the political conventions, so we obtained the ratings for each of the main events of each convention which is the Candidate for Presidents Speech, the ratings were measured using the same number of T.V. networks 9 to be exact and these are the numbers:

- President Trump: 21.6 million viewers.
- Vice-President Biden: 23.6 million viewers.

Will the President be re-elected?

As the U.S is close to reaching 6.3 million COVID-19 cases and 200,000 deaths, President Trump's actions, after months of dismissing the crisis and then eroding his administration's efforts to fight the coronavirus outbreak, maybe his undoing. Since 1912 no sitting President with an economy in recession has been reelected. The perfect storm materialized for the President. The U.S. faces an economic contraction in GDP of -31.7%, 1.06 million Americans filed for new Unemployment claims, and the unemployment rate is at 10.20%; thus, his chances of reelection become greatly diminished.

We take a look at the numbers of three Presidential **National Polls** published between August 17 to 24, 2020, asking voters to choose between Joe Biden or Donald Trump, the results are below.

CNN Poll:

- Biden: 51%.
- Trump: 42%.

IPSO/Reuters Poll:

- Biden: 47%.
- Trump: 40%.

CBS/YouGov Poll

- Biden: 52%
- Trump: 42%

ABC/Washington Post Poll

- Biden: 53%.
- Trump: 42%.

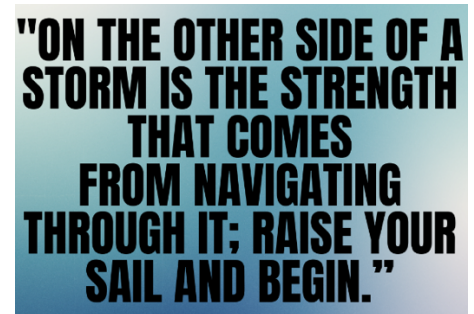
However extensive these polling numbers may seem, in 2016, these same polls placed Hillary Clinton leading from 5 to 7 points to win the Presidency; a lot can change between now and November.

Another issue in my mind is that the platform for both parties seems to focus on not electing the other guy, instead of competing on the substance of the real problems affecting all Americans. It seemed a distant past when leaders presented themselves as if the Presidency was a job interview, and they would offer their best plans for the nation.

In my opinion, great leaders must have an authentic disposition to serve with unquestionable devotion to lead all citizens of a nation, not just part of them.

Provoking a united nation with a shared sense of purpose while striving for common goals has to be the correct path to lead a nation. No leader can ever achieve greatness using divisiveness.

Does President Trump deserve to be reelected? That is a decision for all U.S. voters to figure out.



Theme 1: Trends that Investors Must Be Vigilant of their Progress-

we have composed a list of items that all investors must be vigilant of at the current Pandemic. It continues and affects the economy, markets, and daily lives. When dealing with the Pandemic is outside of our comfort zone, we can

advise you of the current market and how to navigate it. Considering all the issues at play, we want to provide some trends to help you navigate this scenario.

- **The Economic Recovery:** the significant rise in the prices of most stocks have been based on the reopening of the U.S. economy, mixed with the timely fiscal stimulus from Congress and very aggressive monetary policy implemented by the Federal Reserve. The COVID-19 surge could impact the economic progress we reviewed. Investors must be exceptionally vigilant of all developments to stay ahead. Our projection to experience a measured refinement in corporate profitability with a return to earnings growth by 2021.

- **Corporate Earnings better than feared:** we are seeing both companies beating estimates and companies delivering dismal results. We have seen companies that range from retail to food sales to manufacturing report worse than expected results. Just shy of fifty percent of all S&P 500 companies have reported quarterly results, and 84% of the companies have exceeded analyst estimates. These results have exceeded the low expectations from analysts. The current earnings forecast is a 40-43% reduction in earnings for 2Q2020 and 20%-25% for the full year.

- **To achieve the Corporate Growth Projections, we see:**

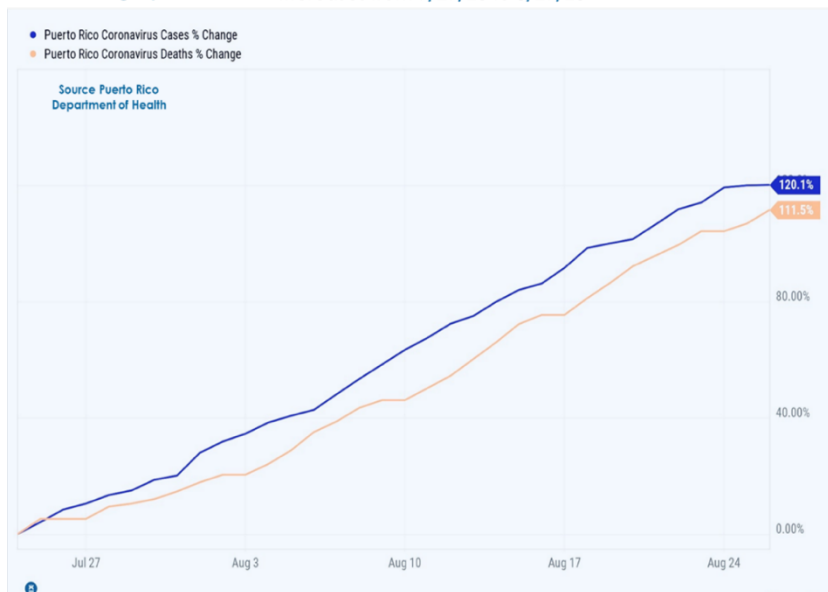
1. An enduring economic recovery, full of pits and falls.
2. Lower than expected Interest Rates low-interest rates.
3. With the digital Transformation and remote work environment proven effective, a sea of corporate cost-cutting efforts is underway.

- **The Coronavirus Surge as measured from July 27 to August 27, is as follows:**

- The U.S. reported a significant reduction in cases to a 36.54% rise.
- Puerto Rico reported a 120.1% rise.
- Puerto Rico Deaths rose 111.5%

COVID-19 Cases and Deaths

www.birlingcapital.com Increases from 7/27/20 to 8/27/20



Should there be another wave of cases, the economic recovery will be significantly impacted.

However, in addition to the many deaths that the Coronavirus has produced, the other side is close to 15,000 Puerto Rico business that may close permanently, losing with them more than 100,000 direct and indirect jobs.

Theme 2: The electoral process must not play a part in what drives investment portfolios.

During the past two weeks, we have seen the election news cycle absorb most of the news we consume. Whether in Puerto Rico or anywhere in the U.S., politics play a large part in radio, press, and network traffic. Here in Puerto Rico, this previous Sunday, Puerto Ricans from the two major parties selected their

candidates for Governor, now the full weight of the local campaign goes full circle. In the U.S. last week, the Democratic party held its Virtual National Convention, with some success. This week, the Republican Party hosts their own Virtual National Convention.

We must all expect the electoral process to become breakfast, lunch, and dinner in terms of news and discussions.

These electoral processes create a level of anxiety and uncertainty that becomes market volatility. As we look back to the last 18 elections in the previous 72 years, we note that and every combination of Governors, Senate, House, President, or who controls Congress, these outcomes have mattered almost zero on the returns of stock portfolios is just shy of 12%.

More often than not, from Presidents to Governors, most take the credit to solve your life problems and often for the well being of the stock markets. Usually, a well-balanced investment climate with investors in high regard is essential.

What truly matters to most investors is that their portfolios are well-diversified, with definite goals.

Over the long term, economic and corporate earnings drive up the stock markets over time.

Monthly Market Close Comparison	8/31/2020	7/31/2020	Change%	YTD Return
Dow Jones Industrial Average	28,430.05	26,428.74	7.57%	0.40%
Standard & Poor's 500	3,500.31	3,271.19	7.00%	8.58%
Nasdaq	11,775.46	10,745.27	9.59%	30.35%
Birling Puerto Rico Stock Index	1,574.70	1,542.30	2.10%	-22.73%
10-year U.S. Treasury	0.72%	0.56%	28.57%	-1.20%
2-year U.S. Treasury	0.14%	0.11%	27.27%	-1.30%

Theme 3: An August to remember, the Bear Market Dies, Nasdaq YTD Returns 30.35%-

The U.S. stock markets ended the trading month with a bang, with much higher increases than the previous weeks and the best August since 1984. With the Nasdaq Composite having a year to date return of 30.35% and the S&P 500 Index has grown close to 55% since the bear market and yielding a return of 8.6%. We can safely say that the bear market is dead with the economic recovery taking a firm hold, as several vital benchmarks have improved significantly, which we review below. Suppose you feel like me that someone robbed you of your summer. In that case, you are not alone, and the COVID-19 lockdown altered the normal flow of the year in many areas that include education, family vacations, workflow, buying habits, and many other changes product of the social distancing measures caused by the Pandemic. However, as the summer ends, the markets are in a healthier position than March. It is a direct result of easing the exogenous economic shock that the economy suffered as the COVID-19 spread globally.

Results for the Month closing 8/31:

- The Dow Jones Industrial Average closed at 28,430.05 up 2,001.31 points or 7.57%.
- The Standard & Poor's 500 closed at 3,500.31 up 229.12 points or 7.00%.
- The Nasdaq Composite Index closed at 11,775.46 up 1,030.19 or 9.59%.
- The Birling Puerto Rico Stock Index closed at 1,574.70 up 32.40 points or 2.10%.
- The U.S. Treasury 10-year note closed at 0.74%, up 28.57%.
- The U.S. Treasury 2-year note closed at 0.14%, up 27.27%.



The Eight Auspicious Signs of Good Fortune

The eight auspicious signs of good fortune are an essential part of the Tibetan culture; if you travel into Tibet, you will note that signs are a critical part of their culture. They use signs everywhere from Hotel to Restaurants to Public buildings to Airports. One is my favorite and is the sign of The Pair of Golden Fish that represents the wish that all the beings attain wisdom and may be free from the ocean of suffering. As we attempt to discuss which signs investors should look for as the last part of the year marches on to see if these eight signs we discuss below will bring you good fortune for the rest of the year. We share our observations below.

- 1) **The Federal Reserve Bank estimates:** that third-quarter Gross Domestic Product will register with a 26% increase.
- 2) **The U.S. Monthly GDP:** grew to 20.35 trillion, up from 19.32 trillion last month and down from 21.40 trillion one year ago or an increase of 5.33% from the previous month.
- 3) **The U.S. housing market:** has not only bounced back is doing much better than pre-pandemic levels. One of the drivers of this growth is the thousands of families moving to the suburbs

seeking more space and fewer people's concentration. Also, as hundreds of thousands of Americans work remotely for the long term, the need to be close to their places of work is substituted with more spacious houses outside of the major metropolitan cities.

- 4) **Most Industrial benchmarks:** have recovered, including U.S. ISM Manufacturing PMI, automobile manufacturing, and inventories orders.
- 5) **Although Unemployment fell:** slightly to 10.20, it is still very high for U.S. standards; there are close to 7 million Americans seeking unemployment benefits.
- 6) **The U.S. Coronavirus total cases:** increases seem to have slowed down from its July high of 71,000 per day to less than 40,000 per day. There have been reports lately of advances in clinical trials of new drugs, new testing that may significantly improve cases' detection.
- 7) **Corporate Earnings:** have been much better than the consensus-estimated, and since 98% of the S&P 500 companies have reported their 2Q20 results, we can say the worst is behind us.
- 8) **Recession Periods:** As we note in the table below, we compare recession periods with decline for peaks. Even though the 2020 fall was the worst of record, its recovery has also been astonishing





Will My Business Survive This Pandemic?

by CPA Cesar Hernández-Monagas, Principal Birling Capital

We have been discussing this a question with our clients, big and small, for the last four months. The fact that you have made it so far, it does not guarantee that you will keep your Business running. Before we go into detail, the most important advice that we could give you DO NOT PANIC be proactive and act. You are not alone; other businesses are going thru the same situation, but you must deal with the situation in front of you.

The following list summarizes the basics that as a business owner, you should have in mind:

- **Plan** – You must seek the advice of others. Includes your business advisors, CPA, and even your competitors to come up with ideas. Share with others your hits and misses. Also, it would help if you involve your key personnel. You should make sure that they are part of the creation of the plan and the implementations. Your employees are directly involved in the day to day operations and will probably come up with ideas that you might not have thought. A must with any plan is communication. As the owner, you need to ascertain that all are aware of the goals and the steps to achieve them. Communicate as much as you can; this not the moment to become a silent owner.
- **Cash Flow Planning** – you must do an honest assessment of how long your Business can stay afloat with little or no revenue. Remember the famous phrase "CASH IS KING." As cash flow modeling tool is critical in a situation like this. We recommend working with your business advisor in the preparation of a 13- week cash flows report. The 13-week cash flow uses the direct method to forecast weekly cash receipts fewer cash disbursements. Although the forecast is frequently used for financial distress companies, it is a perfect tool for a situation like the current Pandemic. The 13-week cash flows report provides visibility into the company's short-term options. This report will give you the necessary information to talk to your bank, supplies, and employees and regularly monitor it. Manage your Business based on the report; your business survival depends on this.
- **Cash Flow Management** – You must do whatever is necessary to collect the cash owed to your Business as soon as possible. Paying your bills and your employees will depend on how good you at collections from your customers are. You also need to evaluate your inventory levels and other assets. Do you have extra inventory that can be returned? Do you have other assets, non-essential to your Business, that can be sold to generate extra cash? Can you give incentives to your customers if they pay faster? These are some examples of the different analysis that you should be doing in an extreme situation like this Pandemic. Always remember that a sale is not completed until the cash is in the bank.
- **Increase Cash Flows** – You must remember one of the basic client loyalty rules and provide the best customer possible. Ensure that you contact all your current clients and let them know that they can count on you, as you do on them to keep the Business running. You need to figure out how to provide additional services or products to your clients. Analyze your Business from your customer's perspective and find out how to better serve your customer, increasing your sales. For example, under the current executive order, restaurants have a limited number of seats that they can serve and are now dependent on take-out and/or deliveries. If you are a restaurant supplier, find out how you can better serve your client based on this new business model. Be creative. If you don't have a digital presence, this is the time to think about it. Prepare a break-even cost analysis; if the numbers work, go for it. Be creative.
- **Managing Payments/Outflows** – Cut expenses NOW and reduce the cash outflow, waiting for "normal" to come back will lead to failure. Prepare a list of all expenses and determine which expenses are not essential to your line of Business. If the expense does not add anything to your top line, eliminate it. Use rewards points or airline miles to pay for purchases. Talk to your suppliers and ask for payment plans or payment extensions. In other instances, ask for discounts for faster payments, you must do whatever is needed to reduce the amount and frequency of the cash outflows.

- **Insurance** – this is one of the most overlooked expenses by business owners. Most of them see this expense as a cost of doing Business, and 90% of the time, companies are not adequately insured. Ensure that you review your insurance policy and make sure that you understand your coverage but, most importantly, what is not covered. Perform a cost analysis to determine if the increase in premium for additional coverage is worthwhile, specifically in the business interruption coverage. On the other hand, you should also evaluate if there are items that you can eliminate from your current coverage without significant exposure to the Business.
- **Staffing** – if you don't have a staffing guide, this is the moment to prepare one. Once you have your essential staffing guide, you must perform a critical staff analysis – which is the minimal number of employees that you need to keep the Business operating under this survival phase. Please communicate with your employees the need to reduce labor hours and work schedule reductions by themselves. Let them know that reducing hours is better than reducing staff. If this does not work and you need to reduce staff, do it quickly but be sensitive. Ensure that you inform your employees about the different government aids available to them during their Unemployment and, if possible, help them complete their unemployment forms.

All of the previously listed items are mostly short-term solutions, but as your company leader, you must analyze long-term solutions as well. The main objective of the long-term analysis is to determine when to throw in the towel. Regardless of the level of risk that you are willing to accept, you must identify the time in which the Business must shut down. The long-term analysis should include:

- Eliminate a business line/product
- Merge or partner with a competitor
- Expand the cash flows and cost reductions analysis
- Determine your cut-off level

To conclude, remember that nobody wins if your business shutdowns. A plan must be prepared, communicated, and followed. You must monitor the plan's progress and, when new information is available, incorporate, and make new decisions. A well-prepared plan must be flexible. No one will manage the Business as you do; therefore, you must involve all your business partners and employees. Your Business's survival depends on the decisions you make, not on the ones that you don't make. At Birling Capital, we have the tools to guide you to the process to ascertain that your Business survives this Pandemic and any financial crisis.



The Final Word: Every Puerto Rican Should be Discussing the Status

As most everyone knows, the current administration has included in the November election a plebiscite for Puerto Ricans to decide Statehood Yes or No.

Before we continue, it should be clear that I cherish my U.S. Citizenship, and I think that the Status discussion of great relevance in an election year is because it is time for Puerto Ricans to vote with their conscience.

However, before they do, let's talk about in-depth about Status. Let me begin with the Status of our ranking on the World Bank's "Ease of Doing Business 2020."

The Status of our ranking in the World Bank used to be #18 in 2006, But I won't go back that far; in 2017, when the current administration took over, Puerto Rico ranked #55 out of 190 economies; by 2020, we fell to #65 in the World an 18% decline, or if we measure since 2006 we have lost 47 places and 261%. Worldwide, 115 economies made it easier to do Business.

According to the World Bank, the economies with the most notable improvement in Doing Business 2020 are Saudi Arabia, Jordan, Togo, Bahrain, Tajikistan, Pakistan, Kuwait, China, India, and Nigeria, and not a single Latin American or Caribbean economy ranks in the top 50.

Let me explain for you some of the metrics used to rank Puerto Rico and what is our current Status;

- Status of Starting a Business rank **#59** out of 190.
- Status of Dealing with permits rank **#143** of 190.
- Status of Getting Electricity rank **#92** out of 190
- Status of Registering Property **#61** out of 190.
- Status of Getting Credit rank **#4** out of 190.
- Status of Protecting Minority Investors **#88** out of 190.
- Status of Paying Taxes **#163** out of 190.
- Status of Trading Across Borders **#70** out of 190.
- Status of Enforcing Contracts **#70** out of 190.
- Status of Solving Insolvency **#10** out of 190.

As you see our Status is horrific and getting worse every year mainly the last four, and all of these issues aside from Insolvency and credit which are mostly dealt with in the Federal realm (and are the best ranked); the rest if we took the time we could fix in less than a year.

Additionally, we should ask, What is the Status of our education?; What is the Status of eradicating Corruption?; What is the Status of Dealing with Crime?; What is the Status of the hundreds of thousands that lost their jobs?; What is the Status of the worsening living conditions in Puerto Rico?

Status, Status, You want to talk about Status, Let's begin fixing the Status of all that is broken in Puerto Rico. Before we continue entertaining the voters with ideas that might or might not occur, we can decide to improve all citizens' lives by merely dedicating enough time following the metrics provided by the World Bank to make Puerto Rico the best place to live in the World.

We hope that you have enjoyed this issue of The Zenith Investor ©, and we very much welcome your comments, thoughts, and ideas; you may reach us at frc@birlingcapital.com or 787-247-2500.

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