



2 FORECASTS,
2 THEMES &
2 REACTIONS

Governors Rosselló/Vázquez term ends, Success or Failure?

As we wrap up 2020, we have been in confinement due to the COVID-19 pandemic almost ten months, the year end 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 must confess it has not been easy, but must 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.

Happy New Year and 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.

We wish you a Happy and prosperous 2021 and we thank you for your continued support.

*Francisco Rodríguez-Castro
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Leaders who fail to prune their pride will meet demise. That's not a guess, it's a guarantee. With pride, it's not a matter of 'if' we will fall, but 'when.' There are no exceptions.

As we publish The Zenith Investor for January 2021, we have just sworn in our new Governor Pedro Pierluisi, and on January 20, Joe Biden will be sworn in as President. Both elected officials have a demonstrated track record, and there are high expectations of their respective tenures. For that reason, we decided to dedicate this issue to analyze the results of the past administration, and we have titled this issue, "**Governors Rosselló/Vázquez term ends, Success or Failure?**".

One of the benefits of using financial and economic metrics to measure performance is to make unbiased conclusions of these performance metrics' results. A couple of days from now, Governor-Elect Pedro Pierluisi will be sworn in on January 2, 2021, as part of the democratic transition. For the benefit of the incoming Government and to establish the parameters that shape the incoming Government receives Puerto Rico. It is worth noting that evaluating how the Puerto Rico economy has performed after forty-eight months in Office of Governors Rosselló and Vazquez. We must note that measuring a successful governorship takes much more than these metrics. However, they do allow us to measure the overall direction of our economic well-being while pointing the new Government in the right direction.

Upon conclusion of the term in Office Governors Rosselló/Vázquez, we note the following,

No one can dispute that both governors inherited a Puerto Rico that was declared bankrupt, with a Financial Oversight and Management Board to deal with, and an economy in contraction and without access to Capital Markets.

To add more pressure, Puerto Rico suffered the impact of Hurricane Maria that brought the Island to its knees, the Telegram Chat in July 2019 that forced the resignation of Governor Rossello, the destructive



Earthquakes that continue to impact the south-west of Puerto Rico. If these events were not enough, since March 11, 2020, the COVID-19 was declared a pandemic, and the virus has forced lockdowns, social distancing measures worldwide in an attempt to flatten the infections curve.

The results have been quite destructive, with several unprecedented events occurring throughout the rest of 2020.

Puerto Rico has seen **76,291** cases of COVID-19 with **1,503** deaths, a significant impact even as the Government has placed a curfew since March 15, 2020. However, most business owners discuss some of the critical metrics in terms of economic destruction when a recent study from Estudios Tecnicos, inc. measured the economy:

- **54.7%** point to the Economic situation is their biggest concern.
- **36%** claim that the Pandemic has made Business much worse.
- **43.3%** of all businesses have closed on average, 100 days.
- **84.7%** feel that Puerto Rico is in recession.
- **71.3%** have not had COVID-19.
- **60%** claim that they do not have enough capital to continue in Business.

We have developed this measurement scorecard as an aide for achieving success and recognizing it.

We see a severe deterioration in:

- A severe erosion in the image, trust, and credibility of the Governor of Puerto Rico, most agency heads, all Puerto Rico institutions.
- 68 cities out of 78 towns in Puerto Rico have between 40% to 64% of their residents have incomes below the poverty level.
- Close to 70 cities are facing bankruptcy.
- At a current level of 88,165, Puerto Rico Unemployment is up from 85,789 last month down from 90,149 one year ago. This is a change of 2.77% from the previous month.
- Puerto Rico Unemployment Rate Outlook is at 8.50%, compared to 9.00% last year. This is lower than the long term average of 13.89%.
- Also, our labor participation rate dropped to 39.8% and continues to fall.
- The Pandemic markedly eroded average household income.
- The G.D.P. growth rate for 2020 is projected to contract -6.00%.
- The curfew's impact has destroyed thousands of companies, and between 15,000 to 25,000 will go bankrupt, close, or be dramatically reduced, eliminating over 80,000 jobs.

All the improvements in unemployment, job growth that had occurred by February 2020 are mostly gone. The median household income that had improved with 6.65% is now falling rapidly. The G.N.P. growth rate of 1.7% achieved for 2019 has turned into a contraction of -6.00%.

Our tourism sector that suffered considerably during the aftermath of Maria, then dealt with the earthquakes, is again actively coping with the COVID-19 impact.

On Inauguration Day on January 2, 2021, Governor Pedro Pierluisi inherited the following Puerto Rico benchmarks, and we also compare the performance after 48 months of the Rosselló/Vázquez administration, and these are the results:

Benchmarks for Puerto Rico			
Governors Rosselló/Vázquez	Dec/28/20	Jan/02/17	Change
Price Per Liter Regular Gasoline	\$0.69	\$0.65	6.32%
Cement Sales	1,102.80	848.70	29.94%
Unemployment	8.50%	11.70%	-27.35%
Average GNP Growth Rate in office	-6.00%	-2.20%	-173%
Labor-force participation rate	39.90%	40.60%	-1.72%
Home ownership rate	60.90%	62.90%	-3.18%
Birling Puerto Rico Stock Index	2032.04	1227.35	65.56%
Median household income	\$20,078	\$18,826	6.65%
National debt	\$69 Billion + Interest	\$69 Billion + Interest	Unchanged
Credit Ratings	&P (D), Moody's (D) and Fitch (LP (D), Moody's (Caa3) and Fitch		Default
Access to markets	Limited access	No Access	Unchanged

Puerto Rico's economic engine and any other advances must be reworked, as the Pandemic derailed most of the initiatives detailed in the Fiscal Plan. Even as disruptive as this event was, Governor Vazquez took time for a political battle while developing a polarizing attitude that has set a negative tone with most citizens.

In our view, the most essential advances are as follows:

- **Placing Puerto Rico on the Washington agenda:** for decades, Puerto Rico was absent from the Washington agenda, and Maria changed this.
- **Seeking Medicare and Medicaid parity:** Puerto Ricans pay 100% of the Medicare and Medicaid insurance costs, yet we receive less than 40% of the benefits due to us..
- **The inflow of reconstruction funds is significant:** According to their data, the Island has been assigned \$ 83 billion related to hurricanes, \$ 600 million associated with earthquakes, and \$ 14 billion associated with Covid-19 for a total of \$97.6 billion, this enough to rebuild all the critical infrastructure in Puerto Rico.

On the negative side, most experts agree that most of the Governors challenges have been after the Hurricane, earthquakes, and the Pandemic; below some observations:

- **Not working with the legislature and the Financial Oversight and Management Board as a team:** The best way to cure the financial crisis the has affected Puerto Rico is by reaching agreements with the FOMB, Legislature, and the U.S. Congress. Doing so will allow Puerto Rico to accomplish the needed five years of balanced budgets and eventually return to the capital markets. This will imply significant budget cuts and changes to the way Puerto Rico conducts its operations.
- **Puerto Rico's Debt Burden:** the still mostly unresolved issues related to the Government's debt will affect the Government's advances in other areas.
- **Puerto Rico Systemic Risk in Healthcare-** The challenges facing Puerto Rico hospitals and even those in the U.S. are the fact that they are being forced to either reduce costs at the expense of creating potentially devastating impacts on the communities served. This scenario to this indubitable Hobsons Choice has developed through profound public policy and market moves that transfer

financial risk into local healthcare systems. With little or no financing available in Puerto Rico, we have considerable similarities to the systemic risk crisis of 2008. Hospitals have lost so far \$634 million.

- **Demographic Changes and loss of Population:** Although the recent data suggests, migration will be even more severe than projected. There is a consensus that by 2025 our Population will be near 2.8 million. This population decrease will place additional pressure on scarce government resources.
- **Crisis in the management of most Government Agencies:** the current administration has become a revolving door for many agency heads. We have seen several changes in Health, Labor, Police, PREPA, Justice, Emergency Management, State, ASES, and many others.
- **Corruption at all levels of Government:** the arrests of mayors, representatives, heads of agencies, assistants, and contractors, are the broadest sign of the level of corruption that afflicts the country and the Government of Puerto Rico.
- **Poor Selections in naming Key Positions:** this past Government made terrible nominations to many positions; however, the two recent Controllers are key examples.

We provide a roadmap for regulating the Government through the evaluation of significant economic benchmarks. We must find ways to strengthen the way the Government is managed, and this is done if we have the appropriate metrics.

Benchmarking is a necessary function of Government. It can enhance oversight and accountability of programs, improve the effectiveness and efficiency of services, and assess what works and what doesn't while providing critical information needed for making difficult policy decisions.

More than any time in recent history, Puerto Rico's destiny is in the balance, and the direction we take is our choice. There are dangers related to our freedom, our democracy, and our way of life.

For decades, we chose to ignore the signs of impending doom brought on by our wrongful ways, always hoping that a fix would somehow be found.

An accurate measure of the people's strength is how they rise to accept their circumstances and change their ways. Puerto Rico has the option to evaluate its Government and how its Government is performing.

The Economic progress we seek and aspire to achieve is one that contains the following elements:

- High levels of well-paid, stable employment with the capacity to create thousands of jobs in the private sector.
- Change into an economic model that promotes economic development, entrepreneurship, and self-employment.
- Insert Puerto Rico in the globalized economy effectively and permanently, eliminating all barriers that prevent its realization.
- Convert the local business sector at all levels into a highly competitive, innovative, and export-focused one.
- Obtain social welfare comparable to that of the most advanced countries
- Seek a high quality of life and protection of the environment.
- Foster, nurture and preserve Puerto Rico's Investment Climate.

For that reason, we share with you and them the Puerto Rico First Goals:

- Transform Puerto Rico with robust economic development and sustained the growth of 4% over the next ten years.
- Transform our industrial structure into one in which employment is in activities

related to the knowledge-based economy with not less than 25% G.N.P. within ten years

- Create 300,000 new jobs in the private sector within the next ten years.
- Increase the labor participation rate to 55% within the next ten years.
- Reduce the unemployment rate to 5% within the next ten years.
- Closing what has been called the "development gap
- Reduce the government apparatus by transferring to the private sector any corporation, operation, or service that the private sector can perform more efficiently.
- Increase median household income by 30%, from the current \$20,873.80.
- Transform the educational system from primary to university level into one focused on entrepreneurship, trades, and transformation.
- Measure Puerto Rico against its peer group using all available global benchmarks.

In conclusion, we also note that Governor Pedro Pierluisi, whom I know personally, is a capable, decent human being with a storied career in both the public and private sector. He has mostly named exceptionally qualified Secretaries, and Agency heads.

As with all incoming Governments, our faith is placed on their ability to lead Puerto Rico in the right direction while developing a set of key metrics that would allow any citizen to understand a successful Government and How to recognize it.

Forecast 1: The Year 2021= 8,760 Opportunities

In Puerto Rico, the Christmas season boasts being "the longest in the world." Our Christmas is usually filled with parties, gatherings, parrandas, Puerto Rico's version of Christmas caroling on steroids, lots of food, fun, and festive events; this pandemic Christmas does not fill like Christmas at all.

The whole of 2020 has been a year of enormous difficulty, the worst possible health crisis the world has ever faced. The COVID-19 crisis has infected 81,427,216 million people with 1,777,457 deaths worldwide and in the U.S. 341,743. In Puerto Rico, the number of cases is 72,443 cases with 1,432 deaths. The glimmer of hope arrived this past in the form of the Pfizer/BioNTech, Moderna, AstraZeneca COVID-19 vaccines that began distribution initially to the health workers, first responders, and key people in healthcare.

So, the V-Shape recovery is now being called the Vaccine Shaped recovery, which is the theme for 2021.

The world must crush the Coronavirus pandemic with massive vaccination to allow for robust and safe sustained economic growth.

Without massive vaccinations, we will continue to experience the uncertainty of the COVID-19 sources and having that level of uncertainty is detrimental for any economic activity to create sustained momentum.

The Pfizer/BioNTech, Moderna, and AstraZeneca vaccines and others in the pipeline can get thru massive worldwide vaccinations to curtail the Pandemic's spread.

As the crisis and surges subside, so does the uncertainty in any economic activity; as tension dissipates, it builds up business, governments, corporations, workers, and citizens.

While there were many other issues, in came the COVID-19, an unknown potentially deadly disease evaporated governments and businesses' ability to navigate the waters. Until now, there was no known manner to cure the COVID-19 to prevent it from getting infected.

As the U.S. & Puerto Rico, and many other nations worldwide, begin choosing their path to allow their respective economic engine to fire all cylinders, the pressures are relatively high. The consensus

estimates in losses worldwide have been as high as \$15 trillion.

There are three actions Governments must undertake to improve the chances of success during this Pandemic.

1. Balancing Constituents' Needs:

While we agree that preserving life is the key. Some of the restrictions imposed in Puerto Rico defy logic; for starters, the current curfew of 9:00 pm and closing of all retail and restaurants at 8:30 pm are detrimental to the already weakened retail sector. Reducing the hours of operation has the opposite effect rather than lowering the attending public, it forces most to go simultaneously.

2. How Entrepreneurs are suffering in Puerto Rico:

- **54.7%** state, the Economic situation is their biggest concern.
- **51.3%** state, that taxes are too high, and it's their second concern.
- **37.3%** feel that government bureaucracy affects their business.
- **36%** claim that the Pandemic has made business much worse.
- **43.3%** of all businesses have closed on average, 100 days.
- **84.7%** feel that Puerto Rico is in recession.
- **71.3%** have not had COVID-19.

To avert a crisis, all these issues must become action items for the Government to change the current operational conditions.

3. Transition Period: The Government must establish a path that involves attempting to make business whole from the lockdown measures and invest a significant amount of capital in direct payouts to businesses most affected by the COVID-19 measures.

During the transition period, most companies would receive a payout that would allow them to recover and begin their regular operation with enough capital to thrive; at least 60% of all businesses have stated

they may not have enough money to continue.

It has been established that 33% of Small & Midsized companies have closed down, and we must set an investment climate that allows them to recover their former glory.

How should the economy perform during 2021?

While fundamentally we see a brighter 2021, it must be accompanied by the Stimulus package from Congress. Don't expect to experience the recessionary conditions early in the year; however, we believe that the initial months of 2021 will be much lower than initially projected.

The current market is in the initial stages of a new expansionary cycle, but the recovery is likely to take longer and sputter before hitting its long stride; having said that,

Region	Real GDP Growth	Consensus
		2021
U.S.A.		3.10%
Canada		5.20%
Mexico		3.50%
Puerto Rico		1.50%
North America		3.30%
South America		3.60%
Central America		3.60%
Caribbean		4.00%

investors should anticipate continued volatility as we dive into the year 2021.

Every new year and this year, a new administration brings a new canvas to paint Puerto Rico's future. Governor Pedro Pierluisi has a tremendous challenge ahead of him.

However, he has made several nominations that give us hope. They include Secretary of Economic Development Manolo Cidre, a successful executive in his own right, who knows and understands problems facing Puerto Rico deeply.

Manuel Cidre's expectations are high, as he leads the Economic Development agenda. In the past 35 years, no businessperson has ever led the Agency or taken control of Puerto Rico's economic engine.

An engine that needs a stable investment climate, new industries, attract investors, bring manufacturing back, attract new banks, rework, and reimagine how the whole economic development apparatus works. The entire private sector is behind Manolo Cidre in this effort, and we have your back.

In conclusion, the year 2021 brings 365 new opportunities for both the Government and the private sector to figure out with the incoming administration a new working order that would allow a business to pivot, recover, and enhance their operations. The Government must implement a more robust investment climate for investors, companies, and individuals to thrive, allowing Puerto Rico to become a magnet for local and foreign investment; 2021=8,760 opportunities.

Forecast 2: The seven trends to watch in 2021: If you survived 2020 in one piece, you are one lucky soul; we now must set our sights on the year 2021.

In Puerto Rico, the number 21 is forever linked with baseball immortal Roberto Clemente; for others, 21 is the number of blackjacks, and for the Chinese, 2021 signifies the Ox's year.

21 also has other meanings, especially if you just turned 21; it means you are an adult and can now confidently show your I.D. to purchase liquor. In a way, we honestly say that the year 2021 will be a year of great uncertainty, with a still not controlled pandemic, the never-ending social distancing measures, the continuation of the exogenous economic shock unless the world seeks massive vaccinations.

As 2021 is upon us, we share the top seven trends to be aware of during the year 2021.

1. **Economic Recovery:** we have never had in modern history such uncertainty over the world's economic forecasts. Most nations' economic engine depends on the massive vaccinations, control of the

pandemic, and normalization of the world's economy. The part that is not yet known is what has been the overall damage to most sectors after the economic destruction 2020 brought in. Since most governments have massive emergency stimulus packages, the full extent of the damage will not be realized until the second quarter of 2021.

2. **Vaccines Become the new**

Gold: as the two vaccines become available worldwide, most nations' focus is to acquire as many as they can afford to begin the gigantic task of providing vaccines for 7.8 billion human beings. We shall see an increased worldwide lobby over which nations get to have the vaccines first.

3. **All Eyes on Joe Biden:** the expectations are high for President-Elect Biden to restore the worldwide respect towards the U.S. and attempt to mend all the damage that the Trump administration provoked to the way its peers view the U.S.

4. **Tourism and Travel will remain impacted:** Tourism as we know it will change and reduce, with an increased focus on local and domestic Travel. Our analysis will take at least three years for the tourism sector to re-shape itself to face the new health-conscious traveler. In that regard, Hotel Chains, Airlines, Car Rentals, Aircraft manufacturers, and all related industries will continue to contract and face large reductions in revenues. The trend may impact higher education institutions that are highly dependent on international students.

5. **The U.S. & China Trade**

Tensions are not over: One of the things the Trump presidency was right to approach was the asymmetrical economic relations that China has with the U.S., where all Chinese products arrived at the U.S. freely, while U.S. products faced massive tariffs, scrutiny, copyright, and

design theft and other damages. We do not see President Biden walking away from the trade war; what we do see is a more diplomatic approach to ease the tension while agreeing to a solution that will be more balanced.

6. **The Digitalization of the world is permanent:** 2020 forced hundreds of thousands of businesses and millions of people to utilize technology numbers and ways never imagined. By 2021 we will have a clearer view if most of these technological adoptions will remain as relevant. Some of the ones to watch are distance learning, video conferencing, working remotely, online sales, and goods deliveries.

7. **Healthcare Risks Remain Top Concerns:** as the world initially brushed off the pandemic, the thinking was a Chinese problem. Scientists and researchers worldwide had been warning of a pandemic threat for years. Now see the implementation across many nations worldwide to detect, plan, and fight any pandemic that surfaces.

All told it, the year 2021 would be one of the most exciting and challenging in decades, providing fertile ground for explorations, new trends, and incredible opportunities. The human race has a chance to prevail; to do so, we must respect our planet, fight climate change, and become more centered on our damaging actions to our ecosystems.

One of the most long-lasting images that I will have from the year 2020 is as humans were quarantined; the earth got cleaner, uncluttered, and wilder. Countries like India, which suffer from Smog, were able to see the blue skies and other sightings not visible for years. In Italy, air pollution levels were down 50%; in the U.S., Nitrogen dioxide produced by

fossil fuel consumption was down more than 30%, and we were again able to see the Stars every night.

As they stayed at home, the human began to see how the wildlife ventured out in many places, from Coyotes in Chicago to Pumas in Chile.

When people stay away, the earth's balance takes over, providing the world a chance to heal and wildlife to thrive.

Theme 1: Vaccines, Recovery & Stimulus,

While it may be hard to accept how far the market has increased after the March-April lockdowns, we note that all the major indices have positive returns year to date. Our focus must now be on Vaccines, Recovery & Stimulus.

- **The Vaccines Optimism:** With two approved vaccines and more in the works, the goal is to distribute the vaccines worldwide and reaching most citizens by early summer 2021 represents a turning point in the fight for the cure of COVID-19. Being able to protect all citizens globally will allow economic activity to return to more normal levels. Upon this development, the stock markets are now primed and priced for a post-covid world. We suggest that investors begin selectively researching those stocks most impacted by the pandemic.

- **Economic Recovery:** the U.S. economy created 245,000 jobs last month while reducing the unemployment rate to 6.7%. While job growth has slowed, it recorded seven straight months of job growth; increased restrictions and lockdowns impacted the current trend. While 2021 U.S. GDP growth is projected to reach 3.1%, and by now, most of you know that stock markets take their cues from economic growth, corporate earnings, and market fundamentals. December traditionally being a festive month

for markets, we should be in for substantial growth.

- **Stimulus Funding:** Bi-partisan negotiations in Congress have allowed them to pass and President Trump signed into law the new \$900 billion stimulus funding package. Stimulus funding is a necessary financial tool to allow both business and households to bridge their gaps.

A parting thought we analyzed the markets as far back as 1945; we note that once any market returned to the previous high, the market returned the following year an average of 14.3%.

Theme 2: 2021 Wall Street Outlook and 2020 summary for the year closing December 31;

Key Observations:

- As the Global and U.S. stocks markets end the year 2020, the world is just a step closer to eradicating the COVID pandemic; however, economic recovery will take longer to become sustainable.
- The three vaccines approved and in distribution have become our beacons of hope; with at least two or three more in the Pharma pipelines, we begin the year 2021 with the visibility of a world without COVID.
- The long-term outlook for 2021 is quite bright; however, there are still short-term risks that need to be managed.

As the news broke that President Trump had signed into law the new Stimulus funding bill totaling \$900 billion, the year 2021 will begin with the vital safety net provided by the U.S. Government.

The Stimulus bill includes the following dispositions:

- Stimulus Checks - \$600 per person
- Unemployment Benefits up to \$300 per week until March 14.
- Businesses Relief: \$284 Billion.
- Entertainment Industry Relief: \$15 Billion.
- Economic Disaster Loans: \$20 Billion.

Yearly Market Close Comparison	12/31/20	12/31/19	Return
Dow Jones Industrial Average	30,606.48	28,538.44	7.25%
Standard & Poor's 500	3,756.07	3,230.78	16.26%
Nasdaq	12,888.28	8,972.60	43.64%
Birling Puerto Rico Stock Index	2,045.03	2,037.89	0.35%
U.S. Treasury 10-Year Note	0.93%	1.83%	-49.18%
U.S. Treasury 2-Year Note	0.13%	1.53%	-91.50%

- Emergency Rental assistance: \$25 Billion.
- Vaccines purchases: \$20 Billion.
- Vaccine distribution: \$8 Billion.
- COVID-19 Testing: \$20 Billion.
- School funding: \$82 Billion.
- Child Care Assistance: \$10 Billion.
- Transportation: \$45 Billion.
- Broadband access: \$7 Billion.
- Nutritional assistance, agricultural & rural programs: \$26 Billion.
- Border Wall: \$1.4 Billion.

One question that keeps coming back, again and again, is Why Wall Street seems to be disconnected from Main Street?

Amid the pandemic and all the calamity, the U.S. stock markets came back to post record-high returns in the Dow Jones with 7.25%, S&P 500 reached 16.26%; the Nasdaq Composite gained 43.64%, and the Birling Puerto Rico Stock Index posted a 0.35% return.

To properly understand how the U.S. economy benefited from the different Stimulus bills, and Federal Reserve Bank intervention, and the net benefit to most citizens' Income.

Personal Income Increases line items:

- Cares Act-Unemployment Benefits \$499 billion
- Stimulus Checks \$276 billion
- Business Owners Income **\$29 billion**
- All other Income **\$265 billion**
- **Total \$1.03 Trillion**
- Less Loss of Wages \$43 billion
- Net Income Increase **\$987 billion**

- Less total Personal Expenses **\$535 billion**
- **Net Benefit to the Economy \$452 billion**

That positive Income went to savings accounts, money markets, investments, and other savings vehicles provoking Wall Street to recuperate faster than any different exogenous shock situation in history.

Wall Street 2020 summary for the year closing December 31;

- The Dow Jones Industrial Average closed at 30,606.48, up 2,068.04 points, and a year to date return of 7.25%.
- The Standard & Poor's 500 closed at 3,756.03, up 525.29 points, and a year to date return of 16.26%.
- The Nasdaq Composite Index closed at 12,888.28, up 3,915.68 points, and a year to date return of 43.64%.
- The Birling Puerto Rico Stock Index closed up at 2,045.03, up 7.94 points, and a year to date return of 0.35%.
- The U.S. Treasury 10-year note closed at 0.93%, and a year to date -49.18%
- The U.S. Treasury 2-year note closed at 0.13%, and a year to date return of -91.50%.

Insights for 2021

As stocks ended 2020 with 16% or more gains, delivering such results in a year included an economy-destructive pandemic mixed with a recession and, for good measure, a chaotic presidential election and post-election.

These are the key lessons:

1. Remaining calm and sticking with your long term financial goals when the markets are in panic is the key.

2. Investors always benefit from having a well-diversified portfolio with the correct mix of stocks and bonds, and other instruments with a long-term investment strategy.
 3. Always remember Wall Street looks forward, not back, not at the present.
 4. The U.S. economy gets ready for expansion after the massive vaccine distribution and the added benefit of the stimulus funding.
 5. Unemployment will decline sharply; however, we see the unemployment rate hovering at 5%.
 6. The bull market continues its rise, with the wind on its back.
- This time of the year is the appropriate moment when investors should review their financial goals and get their portfolios ready for 2021 and beyond.



Birling Capital Puerto Rico Stock Index Returns, Jan 1 to December 31, 2020



U.S. Benchmarks as of 12/31/20



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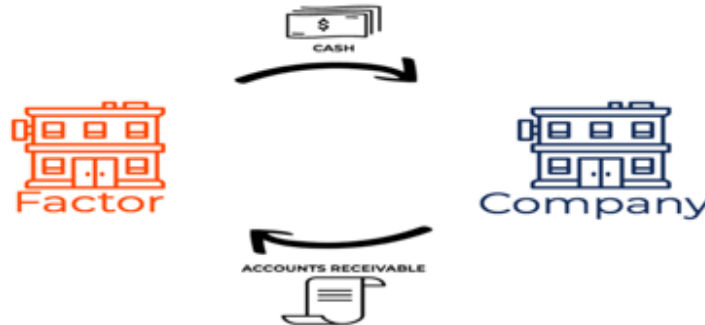
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How to improve your cash flows during the pandemic: FACTORING RECEIVABLES

by C.P.A. Cesar Hernández-Monagas, Principal Birling Capital



As a result of the economic crisis created by the COVID-19 pandemic, there are millions, if not billions, of dollars in accounts receivables outstanding in the U.S. economy and this has created a cash flow shortfall for companies of all sizes, but mostly to small businesses. Under normal circumstances, companies give their customers 30 days to pay, but in times of crisis, many customers request extension of credit terms to 60, 90 and sometimes 120 days, which in turn increases the cash conversion cycle. Owners and investors have been forced to inject more cash in working capital to maintain the companies a float.

Companies with a growing amount of accounts receivables may be able to use those receivables to increase their cash flows by using a financing arrangement known as factoring.

What is factoring?

A factoring arrangement is a process in which a company sells its accounts receivables to another entity, called a factor for cash. However, the purchase of these receivables is done at a discounted price. The purchaser of the receivables (factor) will be responsible for collecting these balances in exchange of a cash advance of approximately 70% to 90% of the value of the receivables. The remaining balance (30% to 10%) is paid back to the seller when the factor collects the total amount of the receivable. The factor reduces from the final paid-out its fees.

The fee charged by the factor covers the following:

1. Factor's Administrative Costs
2. Cost of Collection Services
3. Financing Charge

The factor may reduce its fees when it lowers its risk in the transaction and this is usually done using a factoring with recourse. Under this alternative, the company will return to the factor any cash advanced for accounts receivable that the factor was unable to collect. Another risk reduction alternative for a factor is to exclude from the transaction accounts that are deemed riskier to collect, such as accounts with outstanding balances over 1 year. You can also exclude from the transaction accounts with foreign companies since they will require additional time and additional costs to collect to reduce the risk of factoring.

Considerations

Factoring is not for everyone; therefore, your company's circumstances must be considered when evaluating this form of financing. The following are various operational characteristics to consider before factoring:

1. **Customer Payment Behavior** – If your customers tend to pay on time, factoring is not worth the cost.
2. **Cash vs. Credit Sales** – if the bulk of your sales are in credit, factoring may be an option. Customers that purchase on credit, usually, order in larger quantities, which in turn reduces operating costs related to the processing and shipping of the orders. These reductions in expenses could help pay for the factoring costs.
3. **High Growth** – Companies in their growth phase are more cash intensive. As sales increase additional cash is required to purchase additional inventory or to add additional personnel and factoring can help to reduce the cash conversion cycle.
4. **Mature Companies** – A seasoned company is more prepared to face a cash crisis than a young company and the need to factor its receivables is less. A mature company could have access to other, less expensive, financing alternatives.
5. **Service Provider Companies** – Regular loans are typically collateralized with real assets like inventories or machinery and equipment. However, service providers do not have this type of assets and factoring may be their only financing alternative to alleviate their cash crisis.
6. **Seasonal Companies** – Rather than maintaining a year-round department to handle collections, a seasonal company may use a factor as its collection department. The cost of factoring could be offset by the savings of maintaining the collection department and the cash conversion cycle could be also reduced.

Advantages and Disadvantages

A few of the advantages of factoring are:

1. Improves cash collection cycle as receivables are converted into cash at a rapid pace
2. Shifts focus from collections to operations; managers can focus their attention to operational issues as collections are handled by the factor
3. Easier to obtain when compared to other forms of financing

On the other side, some of the disadvantages are:

- A. It is expensive. Typical factoring rates could be in single digits but could also be a lot higher, depending on the quality of the receivables and the expected time required for collection.
- B. It could affect relationship with clients. Clients may perceive that the company is under financial stress and might stop or reduce purchases.
- C. Limits financing alternatives when collateral is required.

Final Thought

Factoring may be quick and easy solution for cash-strapped companies, and it is less expensive than credit cards, which are typically used by companies, especially small businesses. In addition to fast cash, factoring can also help in managing the cash flow and collection processes which gives management more time to focus on operations.

As a business owner, keep in mind that the quality of your receivables can mean the difference between success and failure. Therefore, it is important that your sales and collections departments work hand by hand to reduce the collections risks which in turn increases the cash collection cycle.



The Final Word: The Risks Business face without a Digital Transformation

Francisco Rodríguez-Castro, President & CEO Birling Capital

The COVID-19 pandemic is and will be the most significant risk facing the world as we enter 2021. The new wave of infections worldwide has provoked restrictions, lockdown again, and will impact economic activity. This recent surge will also force many businesses to close, or dramatically reduce operations, with only those that can move to the digital space will be able to survive and thrive. Even powerful corporations with the most robust balance sheet will face a difficult path, so companies without cash reserves or businesses that require human interaction will face a challenging time.

The COVID-19 is a destructive impact on millions of businesses that were not ready to transform their business digitally. A recent survey conducted by Birling Capital showed some critical results from 10,000 business owners:

- **92%** Want to transform digitally.
- **97%** are afraid of the transformation or do not know how to execute it.
- **95%** told us that crossing the financial and digital bridge will help their companies transform almost immediately.
- **55%** fear that they will not recover their pre-COVID-19 levels.
- **60%** fear not having enough capital

Businesses must Reimagine the future of your industry, define and develop strategies, systematize processes while Creating an emotional attachment to your brand and service. More and more these days, we are seeing companies use [Lead-Pivot.com](https://www.leadpivot.com) to help them implement a complete digital transformation as these are the key to success including:

- **eCommerce:** business model that lets business and individuals buy and sell goods or services over the internet. With the help of multi-layered security, monitored transactions, SSL certification and hosting solutions, online transactions are made in a safe and secure environment.
- **Project Management:** “Is the application of knowledge, skills, tools and techniques to project activities to meet the project requirements. Be sure that your technology projects are managed with your business goals in mind.”
- **Data Science:** inspire innovation and generate new revenue and profit with tools like CRM, Cross-Selling and Business Analytics.
- **Customer Experience and Marketing:** redefine customer experience to boost loyalty, reduce cost-to-serve and streamline growth.
- **Digital Organization:** empower your organization and workforce to lead in a virtualized world.
- **Digital Technology Strategy:** ensure that technology strategy supports your digital strategy – becoming the foundation for success.

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.

Francisco Rodríguez-Castro

President & CEO

About Birling Capital

Birling Capital is a corporate advisory & consulting firm that offers broad corporate finance & advisory services. We focus on identifying and resolving organizational finance-related issues. We use a holistic approach to both assets and liabilities sides with integrated Business, family needs, and objectives.

It is not about proposing solutions; It's about executing them seamlessly

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