

# ECONOMY

Maintain a diverse basket of investments

THINK STRATEGICALLY:

## 7 Thoughts as Dow Sticks to 34,000

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The late former Gov. Carlos Romero Barceló (center) on stage with the late former Gov. Rafael Hernández Colón

The Dow Jones Industrial Average stayed at 34,000 for the past week. It took five years for the index to rise from the then-elusive 20,000-mark achieved Jan. 25, 2017, to surpass 34,777.76 on May 7 this year. Dow milestones are hyped, celebrated, advertised and honored by specialized media outlets, but is there a longer-term significance? Should investors care? The answer is both 'yes' and 'no'.

While evaluating the importance placed on the index's milestones, consider seven thoughts every investor should keep in mind about the Dow Jones Industrial Average:

**The index has more of a psychological effect:** Traders often love big, impressive numbers, preferably increasingly greater ones, and so do most investors.

**The Dow is not ideal when looking for analytical data:** The index covers a very narrow set of stocks and therefore lacks broad representation.

**It is often used when it comes to headlines about stock market performance.** However, 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.

**The U.S. economy is performing better, with higher expectations:** the U.S. gross domestic product (GDP) grew at 6.4 percent, while corporate earnings have been more than 80 percent better than expected. The only outlier is job growth, which was much weaker, with only 266,000 new jobs created, or 73.4 percent fewer than the one million expected. There were 8.2 million fewer American workers employed in April than before the pandemic in February 2020. The unemployment rate also rose to 6.1 percent, up from 6 percent in March.

**In perspective, is 34,000 enough growth?** With the power of compound interest, 100-point or even 1,000-point movements in the Dow do not mean what they used to. Think about it this way: The index first crossed the 1,000 milestone in November 1972. It would take more than 14 years for the Dow to gain the following 1,000 points, which

was accomplished when it first broke 2,000 in 1987. In contrast, the Dow hit 20,000 on Jan. 27, 2017, and three years later, it reached 30,000 on Nov. 24, 2020, and A mere six months later, it surpassed the 34,000 milestone on May 4, 2021.

**A few minor changes in the index's composition make a big difference.** Further adding to the arbitrary nature of the Dow, the index's 30 constituents are not set in stone like many people might think.

**The Dow is not a diversification strategy.** While the Dow can be part of a diversification strategy, by itself, it is not, as it is too narrow and focused solely on stocks. The more effective

approach is to maintain a diverse basket of investments that includes stocks, bonds, cash and other instruments to achieve a balanced, diversified strategy.

After reaching 34,000, the Dow became front-page news, and most investors hope the milestone becomes a stepping stone toward greater growth. We shall see what the future provides.

### Week in Markets: Highly volatile week again delivers superb growth

The U.S. stock markets ended a very volatile week mostly higher, except for the Nasdaq Composite, which lost 210.44 points, and stock rotation took a deeper hold on investors.

The week ended with a largely disappointing jobs report for April that delivered 266,000 new jobs, 73.4 percent lower than the one million expected; a jobs report miss of this magnitude seems asymmetrical after the mostly positive economic data that had pointed towards a sustained economic recovery.

While the discrepancy is large, let us remember that 770,000 jobs were created and that while 266,000 is much fewer than estimated, it was the third-best job growth number in the last six jobs reports.

Here, the first big-ticket item is that the U.S. economy needs to create north of seven million jobs to recover from the pandemic-related job losses. This slowdown in job growth only delays the timeline toward recovering people's jobs. In the aftermath of the great financial crisis, monthly jobs reports were dismal for one year and a half until the economy produced strong job numbers; we shall see if history repeats itself. The second big-ticket item is the unemployment rate rising to 6.1 percent; despite how negative that sounds, the numbers behind the number tell another story, and it is the fact that the increase in unemployment is with 430,000 people added to the labor force. Let us consider that at 6.1 percent, we are just 2.5 percent away from the pre-pandemic unemployment rate of 4.6 percent.

Weekly Market Close Comparison	5/7/21	4/30/21	Return	YTD
Dow Jones Industrial Average	34,777.76	33,874.85	2.67%	13.63%
Standard & Poor's 500	4,232.60	4,181.17	1.23%	12.69%
Nasdaq Composite	13,752.24	13,962.68	-1.51%	6.70%
Birling Puerto Rico Stock Index	2,626.76	2,496.15	5.23%	28.45%
U.S. Treasury 10-Year Note	1.60%	1.65%	-3.03%	0.75%
U.S. Treasury 2-Year Note	0.14%	0.16%	-12.50%	0.70%

### The Final Word: Remembering Govs. Romero Barceló and Hernández Colón

I find it fitting to end my column by paying my respects to Gov. Carlos Romero-Barceló. He was one of the founders of the New Progressive Party, as well as a two-term mayor of San Juan, two-term governor and two-term resident commissioner who passed away May 2.

I am honored to be the founder and chairman of the Puerto Rico Conference for the past 15 years. During its 2012 edition, I thought it made sense to create a forum, "Transform Puerto Rico," and invite our elder statesmen former Govs. Rafael Hernández Colón and Romero Barceló. We had lunch several times to agree on the topics, format, timing and delivery. We were supposed to have a conversation about the future, leadership, economic development, the new generation and how to best transform Puerto Rico. It was to become an event we could host all across Puerto Rico to raise money for their foundations. I was waiting to host the first one to tell them I intended to help their foundations in this manner, but I never got the chance.

The stage was set, all planning was done, and the moment Hernández Colón was walking to the podium, he told me he had decided to make a speech instead of having a conversation. At that moment, all hell broke loose. Romero Barceló told me, Paco, I came prepared to honor our agreement, but this situation leaves me no choice, and I had to agree. So instead of the conversation, we watched two lions fight it out with their speeches as if it was the 1984 election between them.

However, the public loved it; nevertheless, I think it was a missed opportunity for Puerto Rico to distill these leaders' thoughts about topics other than politics. Please make no mistake, we had more than 780 people in attendance, and it was a great success.

Little did we know that would be their last good rumble. May they both rest in peace.

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