

ECONOMY

Topsy-turvy week; markets on hold; audit government bond issues

Think Strategically: Actions Lie Louder Than Words



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Trump—Moral authority: Actions lie louder than words

This past week, the Charlottesville, Va., tragedy became more complicated with remarks the President made, when he insisted "Both Sides" were responsible for the violent acts. What is surprising is his reversal from just 24 hours prior, when he condemned white supremacists and neo-Nazis, who had gathered to protest the removal of Confederate monuments. In our view, the removal of any monument, Confederates included, is an attempt to erase history. We should rather keep these monuments as reminders of the people who were on the wrong side of a human argument.

Our most vivid example is our most sacred ground, the Arlington National Cemetery, where those who paid the ultimate sacrifice have come to rest. At this site, Robert E. Lee's house still sits to this day, and it happened this way to ensure that Robert E. Lee would never return to his home ever again. The atrocities that slavery imposed on blacks are a disgraceful period in our nation. We have often heard that Actions Lie Louder than Words, and the President is making this mistake by defending White Supremacists

and Neo-Nazis. We must forcefully disagree with President Trump's reaction to racism and intolerance, and hate crimes are always wrong in any situation. Treating people as equals is one of our nation's principles. It is every leader's obligation, from business to the government, to bring people together, not to tear them apart.

Markets on hold

As all this is playing out, the markets have been quite volatile, with the Dow Jones Industrial Average losing more than 100 points to close the week at 21,751.22 and the S&P 500 has been within the same range of 2,200.69 to 2,440.27.

P.R. credit update: Who owes what?

Puerto Rico owes close to \$74 billion in debt, much of which is now under Title III proceedings that Judge Taylor Swain is presiding. If we add the \$49 billion in unfunded pension liability, our total is \$123 billion. From the very first day that Puerto Rico filed its Title III bankruptcy, most bondholder groups have fought in court over who has preference over Government revenues, with probably the most prominent argument being the GOs vs. Cofina. In this battle, we must mention opportunistic investors, including Hedge Funds and Mutual Funds, that hold nearly 33% of all

outstanding debt, among them Aurelius Capital, WhiteBox Funds, Avenue Capital, Oppenheimer Funds, Franklin Advisers and Goldman Sachs Asset Management. Included are our local bondholders, such as Credit Unions (Cooperativas) and Residents of P.R., that hold about \$15 billion of the outstanding public debt. We must also remember that this crisis has also made P.R. residents incur capital losses of close to \$65 billion from 2005-2015 due to the following circumstances:

- 2005 P.R. Bank Stock crisis;
- 2008 P.R. Real-Estate crisis \$27B
- 2010-2015 Bank Stock crisis Part 2 (FDIC closed four publicly held banks) \$15B

The question is can we continue to procrastinate in resolving this matter? We have in front of us our best

chance to resolve this problem and reduce our Government in a once-and-done approach.

Final Word: P.R. Infrastructure Financing Authority

On Friday, Aug. 18, Eduardo Rivera Cruz, executive director of the P.R. Infrastructure Financing Authority (AFI by its Spanish acronym) informed that it had found, in a forgotten U.S. Bank account, \$21 million in unused funds from a 2006 bond issue. Rivera Cruz stated that these funds would be utilized for repaving and fixing roads in 30 municipalities and for 40 other projects. There is no doubt that our roads are in bad shape and that these projects would create much-needed construction and economic development activity. What concerns me, both as a banker and citizen, is the fact that

our Government did not know it had \$21 million in a bank account for 11 years. We wonder how many other hidden funds there could be. This discovery provides a strong argument for Auditing the uses of funds from all proceeds of Government Bond issues for determining if they were used according to all representations to prospective investors and, ultimately, if their use was correct.

I can only imagine how all this would play out in a deposition as part of a Title III proceeding, of which AFI and its management would be summoned to attend.

"Oh, what a tangled web we weave, when we first practice to deceive!" said Sir Walter Scott.

Barcelona in our prayers

The terrorist attacks that ISIS made against Barcelona last week, which killed 13 people and injured 120, were additional evidence of how hatred is affecting our lives. We fail to understand how anyone can advance religious beliefs by killing innocent people. Our prayers and thoughts are with Barcelona.

Largest P.R. Issuers in Title III

Issuer	Amount	Title III Filed
General Obligations	\$17.8 billion	Yes
Cofina	\$17.6 billion	Yes
Prepa	\$ 9.0 billion	Yes
HTA	\$ 4.6 billion	Yes
POB	\$ 3.0 billion	Yes
GDB	\$ 2.6 billion	Yes
Total	\$54.6 billion	

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