

ECONOMY

Facebook loses \$120 billion,
U.S. GDP increase 4.1 percent



Think Strategically: Inside the Mirage

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Party Politics Continue to Create Basis for Deep- Rooted Malaise Affecting P.R. Government; Washington Holds Hearings on Prepa

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Week in the Markets: Facebook, Top Stocks for end of 2018

The three main market indicators closed in negative territory, with the Dow Jones Industrial Average standing at 25,451.06, or a loss of 76.01 from the previous close. The S&P 500 closed at 2,818.82, a loss of 18.62, and the Nasdaq closed at 7,419, a loss of 114.76, from their last close. The markets are reacting to a diverse set of issues that include earnings results from most public companies, lofty expectations that investors pegged on them as well as much-anticipated policy meetings from some of the world's largest central banks. We already noted that the Bank of Japan went to the market to purchase bonds as part of its yield-curve management policy. The U.S. Federal Reserve Bank is expected to announce interest rates on Wednesday, Aug. 1, and the consensus is the Fed will take no action. A notable impact on the market, and

Top Stocks to Watch Year-End 2018

Company	Ticker	Price 7/30/18
Advanced Micro Devices	AMD	\$ 19.79
Arena Healthcare	ARNA	\$ 38.71
Caterpillar	CAT	\$144.22
Citigroup Inc.	C	\$ 72.49
Delta Air Lines Inc.	DAL	\$ 54.65
First BanCorp	FBP	\$ 8.36
JP Morgan Chase	JPM	\$ 117.16
Popular Inc.	BPOP	\$ 50.95
OFG Bancorp	OFG	\$ 16.70
Sinclair Broadcasting	SBGI	\$ 25.95
Weibo Corp.	WB	\$ 82.54

with it several tech stocks, was Facebook's announcement that its revenue growth was tapering, and it missed analysts' expectation in both revenue and user growth because investors were rattled by the news of a \$120 billion loss in value by the close of the markets. Most equity investors that had been on the sidelines awaiting the

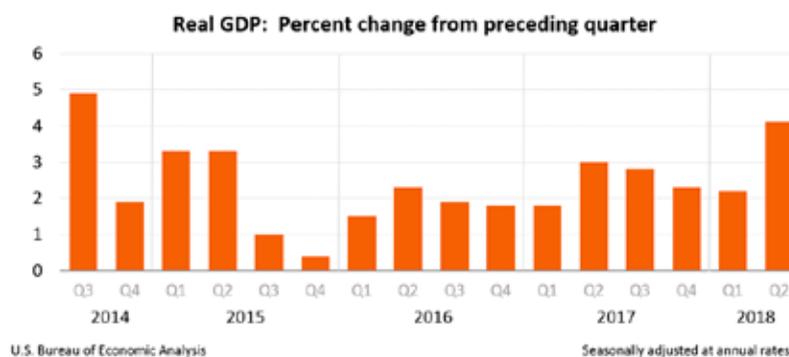
conclusion of the July earnings season are expected to enter the market to seize opportunities that abound. Even while some companies have suffered by not exceeding expectations, numerous opportunities are available in each sector, which is having an impact on the markets, and the potential for both growth and disappointment is quite enormous.

U.S. economic growth at 4.1 percent

The United States economy's real gross domestic product (GDP) increased at an annual rate of 4.1 percent in the second quarter of 2018, according to the "advance" estimate released by the Bureau of Economic Analysis (BEA). In the first quarter, real GDP increased 2.2 percent.

When asked about the economic growth, President Trump stated: "We're on track to hit the highest average growth rate in over 13 years, and as the trade deals come in one by one, we are going to produce much higher numbers."

The BEA emphasized that the second-quarter advance estimate released today is based on source data



that are incomplete or subject to further revision by the source agency. The "second" estimate for the second quarter, based on more complete data, will be released Aug. 29.

The increase in real GDP in the second quarter reflected positive contributions from personal consumption expenditures (PCE), exports, nonresidential fixed investment, federal government spending, and state and local government spending that was partly offset by negative contributions from private inventory investment and residential fixed investment. Imports, which are a subtraction in the calculation of GDP, increased.

The Final Word: Inside the mirage

A mirage is an optical illusion caused by atmospheric conditions, especially the appearance of a sheet of water in a desert. However, seeing the mirage is entirely different from living "Inside the Mirage." On July 25, the chairman of the House Natural Resources Committee held a hearing to discuss "Management Crisis at the Puerto Rico Electric Power Authority & Implications for Recovery."

Before the hearing even began, there was a situation between Chairman Rob Bishop and Gov. Ricardo Rosselló that called for the governor to request an apology from Bishop that never materialized and thus the governor declined to participate in the hearing.

Among those invited were Sen. Eduardo Bhatia, minority leader of the Popular Democratic Party, and Bruce Walker, undersecretary of the Office of Electricity of the U.S. Department of Energy.

As we all know, the Puerto Rico Electric Power Authority (Prepa) is a monopolistic power utility that has lacked a corresponding regulatory authority, which has allowed the entity to operate for decades without any substantive supervision or real accountability. As a result, Prepa became the mirror image of the problems the island faces or, as we have stated, those working there are living "Inside the Mirage," and include political patronage, out-of-control expenses, increased debt levels and lack of diversity in their uses of power sources. Prepa is one of a handful of energy providers that generate power using 65 percent petroleum, 18 percent from natural gas, 16 percent from coal and 1 percent from renewable sources.

It should come as no surprise that consumers pay more than 27 cents per kilowatt-hour for electric power in Puerto Rico. Prepa has been at the mercy of political forces since the late

1970s when party politics drove the implementation of increased political operators to be part of Prepa and other public corporations. We have Populares Energéticos and Estadistas Energéticos, and well as many other party-affiliated groups inside all agencies. Thus, party politics have played an integral part in promotions, job structures, candidate selection and many different situations that have created the basis for a deep-rooted malaise affecting government operations.

There should be no room for any of these groups to exist inside any public agency, and as such they must be prohibited.

As we might expect, the House Natural Resources Committee hearing repeated the same conclusions that most of us know—that Prepa is highly politicized, and unstable with 12 executive directors in the past 12 years. No corporation can operate under such instability, and the results are that we have a fragile electrical grid that was not maintained properly, an over-reliance on transmission lines crossing the island (with most failing during Hurricane Maria), and power-generation plants that are obsolete and placed in the south rather than the north where most consumption is required.

There were no surprises during the hearing. However, its tone indicated that Puerto Rico does not have the will to do what is right: Fix Prepa. Congress appears to be saying that politicians will not allow Prepa to perform its function without the intervention of the government or the Legislature. What we desperately need is to privatize Prepa, eliminate its monopoly and bad habits, and get grip on the island.

So, in conclusion, we must all remind ourselves that for Puerto Rico to change Prepa, we must eliminate all political intervention and provide the utility the needed stability to revamp its operations and improve its services to the public.

More often than not, politicians are more concerned about getting elected, and to get elected, the message must be positive and good. Sometimes when rebuilding a country, this is not possible to achieve, and difficult decisions must be made for the greater good.

We cannot continue to live "Inside the Mirage."

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