

ECONOMY

Buffet indicator could signal manmade disaster

THINK STRATEGICALLY: The Oracle's Insight

Trump Tariff War Adds to Challenging Environment Puerto Rico Gov't Must Deal with Accountability

BY FRANCISCO RODRÍGUEZ-CASTRO | frc@birlingcapital.com



Trumpcession: Impacting the Eurozone

As this newspaper was going to press, Puerto Rico had luckily dodged Hurricane Dorian, which became a Category 5 hurricane shortly before slamming into the Bahamas and had a still-unpredictable path that may impact the U.S. southeastern seaboard. We are all hoping for a miracle as no one should suffer through a major storm. However, we may not be able to avoid a recession prompted primarily by President Trump's protracted trade war with China. Alas, we need to start using the term "Trumpcession" to define the path on which Trump has appeared to be headed not only as pertains to the U.S. economy but the global economy as well. The Eurozone economy is en route to reaching seven years of uninterrupted growth in 2019, as all the member-nation economies are on course to end the year with positive economic growth. The EU is projected to grow at 1.3 percent in 2019 and 1.6 percent in 2020. However, as the U.S.-China trade war impacts the Eurozone, complex matters add to a challenging environment.

Germany: Its economy shrank 0.1 percent in the second quarter of 2019 as industrial output was much weaker than expected.

France: The country implemented several fiscal measures that are expected to support growth.

Italy: The resignation of the prime minister, and an uncertain budgetary outlook with weaker investment and local demand.

Spain: Achieved an upswing in investment requiring fewer imports.

United Kingdom: The UK is set to grow in 2019 by 1.3 percent and 1.4 percent in 2020. This forecast contemplated an orderly Brexit, which is quite improbable now.

Overall, the EU is expected to end 2019 with positive economic growth unless the U.S.-China trade war continues to escalate, impacting further the EU countries that depend on exports.

With new UK Prime Minister Boris Johnson suspending parliament just shy of the Oct. 31 Brexit deadline, the odds of the UK leaving the EU without an agreement are now close to 90 percent.

Buffett: The Oracle's insight

The fact that Warren Buffett's Berkshire Hathaway is hoarding \$122 billion in cash may signal a market crash. Let's examine why. The Oracle of Omaha's Berkshire Hathaway's reported second-quarter results that reflected a significant rise in profits, while it sits on a record amount of cash and the overall value of its now-famous investment portfolio rose to new highs, reaching \$200 billion in value.

Buffett has often used what is called the "Buffett Indicator," a metric used to measure the overall health and valuation of U.S. stocks that is a simple calculation of the total market capitalization of all U.S. stocks by the most recent gross domestic product (GDP).

As a matter of historical reference, the Buffett Indicator surpassed 145 percent just before the dot.com bubble burst, and reached 110 percent the week before the financial crisis. One must not confuse that the Buffett Indicator is a signal that stocks are cheap and may get even less expensive, as happened during the financial crisis and the dot.com burst. Currently, the "indicator" is at 138.4 percent, signaling that U.S. stocks are somewhat expensive.

month on a positive note. The driver of the rally was news that China was seeking a permanent solution to the trade war with the U.S. Additionally, there were reports that consumer spending increased by 4.7 percent in the second quarter, the biggest gain in more than 16 quarters. The Dow Jones Industrial Average closed the week at 26,403.28, gaining 774.1 points, or 3.02 percent, and a year-to-date (YTD) return of 13.2 percent. In addition, the S&P 500 closed the week at 2,926.46, up 79.35 points, or 2.79 percent, for a YTD return of 16.7 percent. The Nasdaq closed the week at 7,962.88 for an increase of 211.11, or 2.72 percent, a YTD return of 20 percent. Meanwhile, the U.S. Treasury's 10-year note yield fell during the week, closing at 1.49 percent, a drop of 2.61 percent, with a YTD return of minus-1.18 percent. Two-year Treasury notes dropped to 1.5 percent during the week, a loss of 2.02 percent, and closed with an inverted yield curve, a clear signal that a recession is coming.

Final word: 'Ay bendito' does not translate in D.C.

Our famous and usually effective "ay bendito" is not translatable and also will not work well in Washington, D.C. when Gov. Wanda Vázquez and her cabinet, along with the Senate and House presidents and other leaders visit the nation's capital to help repair the damage to Puerto Rico's credibility within the Trump White House as well as in Congress.

We must remind the governor that although Puerto Rico's government may have lost some credibility, it did so in the place with the least reliability in the nation. Washington, D.C., the Trump White House and Congress are not the pantheon of trustworthiness.

As we continue on our path to fix Puerto Rico, we must remember that the goal of a robust and buoyant Puerto Rico shall be our roadmap for today and our vision for tomorrow. Some may complain of the burdens of our accountability, the options we must face and the disruption caused, but make no mistake, there is no comfort in avoiding the hard realities to do well and create a new outlook on life for all Puerto Ricans. To agree with our chosen passage is easier said than done.

We wish the governor well in her endeavors in Washington, as her success is our success.

Francisco Rodríguez-Castro, president & CEO of Birling Capital, has more than 25 years of experience working with government, and multinational and public companies.

Notable Berkshire Hathaway holdings

Apple (AAPL): \$52.1 billion
American Express (AXP): \$18.2 billion
Bank of America (BAC): \$26.1 billion
Coca-Cola Co. (KO): \$22 billion
Wells Fargo (WFC): \$19 billion

In summary, we must be mindful of the Buffett Indicator, as it is telling us most stocks have not been as high or near their highs as right now. So a market crash may indeed be approaching.

Week in markets: Volatile August

August became the most volatile month of 2019, if not in recent memory. After dropping close to 700 points, stocks climbed higher, finishing the

Market Close Comparison	8/30/19	8/23/19	Change	YTD
Dow Jones Industrial Average	26,403.28	25,628.90	3.02%	13.20%
Standard & Poor's 500	2,926.46	2,847.11	2.79%	16.70%
Nasdaq	7,962.88	7,751.77	2.72%	20.00%
U.S. Treasury 10-Year Note	1.49%	1.53%	-2.61%	-1.180%
U.S. Treasury 2-Year Note	1.50%	1.53%	-2.02%	-1.060%