



**2 FORECASTS,
3 THEMES &
3 REACTIONS**

The EcoFlation Risk

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 to 5-year window.

We invite you to examine this month's insights to help you stay ahead of the curve.

We thank you for your continued support.

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“Change is an inevitable part of life, Your Growth is optional, and using the power of self-discipline is everything to thrive, grow and prosper”



As we publish the June 2021 edition of The Zenith Investor, In the midst of the U.S. accelerating economic recovery combined with the most extensive fiscal stimulus funding absent a world war, we begin to see the effect of the EcoFlation Risk.

Adding to the EcoFlation Risk is that the Federal Reserve Bank has pledged to maintain interest rates low until the U.S. reaches full employment; this fact is creating concerns among Inflation Hawks.

There is an argument that if the inflation in the U.S. if is not curbed in time, the U.S. economy may overheat; this issue has created high volatility.

How considerable is the risk of EcoFlation?

The reopening recovery, stimulus support, increases in the personal savings rate, and low interest rates have provided the U.S. GDP's right environment to continue rising even above the current rate of 6.40%.

We also expect that the continued rise in economic fortunes will bring the unemployment rate to the range of 3.50% to 4%. However, there are significant risks on the horizon that could impact the overall economy.

The critical question then is how big the EcoFlation may rise?

We project that Personal Consumer Expenditures expect inflation to rise near 2.0-2.3% by 2022-2024, more significant than the last economic cycle, but near the Federal Reserve Goals. In summation, these are our expectations for economic growth:

- **Gross Domestic Product:** may rise in the range of 7.00% to 7.40% for 2021 and a range of 4.8% to 5.25% for 2022.
- **Unemployment Rate:** our model suggests a range of

4.75% to as low as 4.25% for 2021.

Below we analyze the latest economic numbers:

- **U.S. Real GDP Quarter-over-Quarter** rose to 6.40%, compared to 4.30% last quarter, a 32.8% increase.
- **U.S. Initial Claims for Unemployment Insurance** fell to 406,000, down from 444,000 last week, and reduced -8.56%.
- **U.S. Personal Savings Rate** rose to 21.40%, compared to 13.60%.
- **U.S. Durable Goods New Orders Month-over-Month** fell to -1.29%, compared to -2.18% last month.
- **U.S. Durable Goods New Orders Year-over-Year** rose to 45.60%, compared to 20.97% last month.

The U.S. GDP growth number of 6.4% remains on target, and the Initial jobless claims surpassed projections for the second consecutive week by reaching 404,000 vs. 425,000, which was the expectation.

Forecast 1: Is not If, is when the Bitcoin speculative bubble will explode?

Like all bubbles and speculative investments, there is a point in time where a herd of investors enamored by the outsize gains will begin to invest or consider investing in asset

classes they do not fully understand or comprehend. Such is the case for Bitcoin, which is the name of the most widely known Cryptocurrency and was the reason blockchain technology was invented.

Blockchain is the system used for recording information to make it difficult or impossible to change, hack, or cheat the system. Thus, a blockchain is a digital registry of replicated and diffused transactions covering a complete network of computer systems on the blockchain.

What is Cryptocurrency?

A cryptocurrency is the means of exchange, such as the U.S. dollar or EURO. However, it is digital and uses encryption techniques to control the creation of monetary units and verify funds transfer.

Let me begin by saying, I do not support Bitcoin and do not have any investment interest in it.

However, many of my readers and clients have become interested in the asset class, So I decided to thoroughly discuss the subject to allow others to understand it better.

The first thing everyone must understand is that the currencies are supported and backed by the taxing authority of a country, using the rule of law, a central bank of the nation.

Cryptocurrencies are not backed by any physical commodity or precious metal or the full faith and credit of any nation. Since its creation and the current value of most Cryptocurrencies, including Bitcoin, have been driven by speculative investment. Throughout much of its history, the present value of Bitcoin has been driven primarily by speculative interest.

Let's see the most recent trading of Bitcoin. Bitcoin closed on May 21, 2021, trading at around \$40,437.73. However, when we compare the price of Bitcoin on June 21, 2014, the closing price was \$597.04, a 6,830% growth.

However, not all is growth for Bitcoin;we note the following:

- **Bitcoin Transactions Per Day:** we note that it has fallen to 223,800, down from 302,390 or -25.99% less same time last year.
- **Bitcoin Supply:** is at 18.72Million, up from 18.38M one year ago, a 1.81% increase.
- **Bitcoin Average Difficulty:** has risen to 25.05, unchanged from 15.14 one year ago to a 65.45% increase.
- **Bitcoin Total Output Value Per Day:** rose to 2.363 Million, up from 1.041 million one year ago or 127.1% higher.
- **Bitcoin Average Cost Per Transaction:** rose to 138.86, up from 30.85, a 350.1% rise one year ago.
- **Bitcoin Market Cap:** has risen to 720.52 Billion, up from 167.70 Billion one year ago, a 329.6% rise.

As you can see by the sheer numbers, Bitcoin and other Cryptocurrencies investments have captured a sizable following and

plenty of hyped attention during the current Bull Market, which benefits from the increased liquidity in the financial markets and the herd euphoric following the emerges from some market rallies.

These Cryptocurrencies and other speculative investments like them have enormous attention and price increases over the past year. We must compare the GameStop saga we discussed at length. As you recall, it was similarly based on pure speculation towards a company that was losing money and had no basis to see its stock grow from \$4.59 in March 2020 to as high as \$347.51 on January 27, 2021, to then level of to \$176.79 on May 21, 2021. When the speculation was over, it has made a hedge fund collapse and lost billions of investors, both large and small.

In conclusion, every time anyone asks me about Bitcoin or Cryptocurrency, I tell them the story of the Tulip mania of the 17th century. This was a period during the Dutch golden age in which contract prices for some bulbs of the then recently introduced, beautiful and famous tulips has reached extraordinarily high levels, and like all bubbles, collapsed dramatically collapsed in February 1637. The Tulip Mania is the first recorded and documented speculative or asset class bubble in history. In many ways, the tulip mania, similar to Cryptocurrency, was more of an unknown socio-economic phenomenon based on pure fiction. Since then, the acronym "tulip mania" is usually referred to as a metaphor to point to large economic bubbles when its prices deviate from their intrinsic values, which is the measure of what an asset is worth.

Forecast 2: What to expect with the Dow Jones above 34,000: This week against all odds the Dow Jones has maintained the 34,000 mark for the past few weeks; it took five years for the Dow Jones to grow from the then elusive 20,000 mark achieved January 25, 2017, to surpass 34,777.76 on May 7, 2021, As the Dow Jones Industrial Average crossed this record level. This new milestone is hyped, celebrated, advertised, honored, among other things, by specialized media outlets. **Is there longer-term significance? Should investors care?**

The answer is both: Yes, and No. While evaluating the importance level, investors may place on the Dow Jones at 34,000, we wish you to consider seven thoughts every investor should know about Dow Jones Industrial Average:

1. **The Dow Jones Industrial Average is more of an Psychological Continuation:** often traders love the big and impressive numbers, preferably increasing, and so do most investors.
2. **The Dow Jones Industrial Average is not ideal when looking for analytical content:** as the index covers a very narrow set of stocks and therefore lacks broad representation.
3. **The Dow Jones is often used when it comes to headline information about stock market performance:** however, this 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.
4. **The U.S. economy is performing better with higher expectations:** the U.S. hit

6.40% GDP with corporate earnings have been more than 80% better than expected. The only outlier is the job growth, which showed much weaker jobs reports showing 266,000 new jobs created, or 73.4% less than the 1,000,000 new jobs consensus estimates.

Additionally, there were 8.2 million fewer American workers employed during April than pre-pandemic levels in February 2020. The unemployment rate also rose to 6.1%, up from 6.0% in March.

5. **The Jones in perspective is 34,000 enough growth?** with the power of compound interest, 100 points or even 1,000 points movements in the Dow Jones do not mean what they used to. Think about it this way: The Dow 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 January 27, 2017, and three years later, it reached 30,000 on November 24, 2020, and a mere six months later, it surpassed the 34,000 milestones on May 4, 2021.

6. **A few minor changes in the index's compositions 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.

7. **The Dow Jones 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.

The Dow Jones, after reaching 34,000, has become front-page news of all media, and most investors hope that this milestone will act as a steppingstone in getting more growth; we shall see what the future provides.

Theme 1: Remembering Governor Romero-Barceló & Governor Hernández-Colón

I find it fitting to dedicate some time by paying my respects to Governor Carlos Romero-Barcelo. He was one of the founders of the New Progressive Party, two-term Mayor of San Juan, two-term Governor, and two-term Resident Commissioner who passed away last May 2.

During his term, Governor Romero Barceló promoted major economic reforms on the island, which were focused on supporting the development of tourism. As chief executive, he was also a staunch defender of fiscal discipline and the government's budget, as he had periods marked by a long-lasting recession.

In the twenty-odd years that he was in Dorado, I always remember that in Old Dorado Beach, it was usual to see Don Carlos on Saturdays or Sundays sitting at the bar on the way to the beach drinking one or more "Coco Locos." At the same time, he chatted pleasantly with anyone who wanted to talk to him, and many were the afternoons we spent talking in that place.

But the story I want to tell you is not that. For the past 15 years, I feel honored to have been the founder and president of the Puerto Rico Conference, the most important macroeconomic conference held by the private sector to attract investment and present the most important business opportunities in Puerto Rico.

For the 2012 Puerto Rico Conference, I thought it would make a lot of sense to create a forum and it would be called "Transform Puerto Rico." I invited our Elder Statesmen, former Governors Rafael Hernández Colón, and Carlos Romero Barceló.

We had lunch several times to agree on the topics, format, timing & delivery. We were supposed to have a conversation about the future, leadership, economic development, the new generation, and how to transform Puerto Rico best. It was to become an event we could host

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, and I never had the chance.

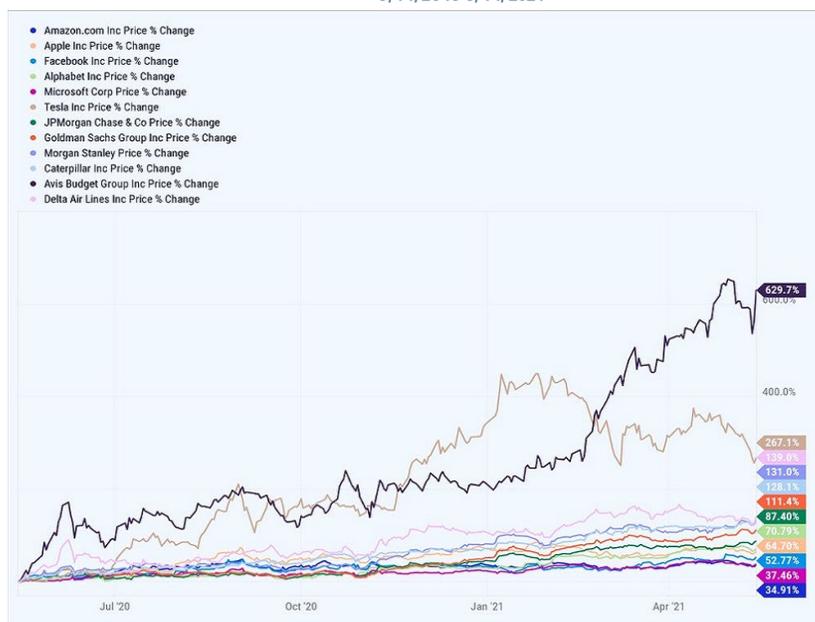
The event had 780 people in attendance, the stage was set, all planning was done, and the moment Governor Hernandez-Colon was walking to the podium, he told me he had decided to make a speech instead of having a conversation. At that moment, all hell broke loose. Governor Romero-Barcelo told me, Paco, 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 in speech as if it was the 1984 election between them.

However, the public loved it; albeit I think it was a missed opportunity for Puerto Rico to distill these leaders' thinking 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.

Theme 2: The Stock Rotation analysis and portfolio: One of the market constants is that as markets move up or down, particularly during times such as the exogenous shock from the pandemic, a tidal wave often makes the markets change course. A Stock Rotation is a strategy used to capture returns from market cycles and improve the diversification of a portfolio over a defined time period.

While we continue to see the mostly positive returns from the Dow Jones, S&P, Nasdaq, and the Birling Puerto Rico stock index, we note that a large portion of stocks are



experiencing one of the most comprehensive stocks underneath the veneer stock rotations since the pandemic took hold.

As we have discussed many times, Wall Street lives in the future, and it has long been preparing for a sustainable economic recovery that has taken hold during 2021 and will take us beyond 2023. Most investors are divesting from those stocks that primarily benefited from the pandemic and transition into those stocks most impacted by the pandemic.

For example, some cyclical sectors include banks, financials, airlines, car rental, and many others. On May 14, 2020, we invested in 12 twelve stocks that would represent a reasonable basis for stock rotation. We want to discuss our results after reaching the First anniversary of our Stock Rotation portfolio and its performance by individual stocks.

The Stock Rotation Portfolio its ranked by total return:

1. AvisBudget Group (CAR):

- Stock Price on 5/14/20: \$11.90
- Stock Price on 5/14/21: \$86.82

- Price Increase/Decrease: \$74.92
 - Total Return: 629.70%
- 2. Tesla (TSLA)**
- Stock Price on 5/14/20: \$160.67
 - Stock Price on 5/14/21: \$589.74
 - Increase/Decrease: \$429.07
 - Total Return: 267.10%
- 3. Delta Airlines (DAL)**
- Stock Price on 5/14/20: \$19.38
 - Stock Price on 5/14/21: \$46.31
 - Increase/Decrease: \$26.51
 - Total Return: 139.0%
- 4. Morgan Stanley (MS)**
- Stock Price on 5/14/20: \$37.81
 - Stock Price on 5/14/21: \$87.35
 - Increase/Decrease: \$49.54
 - Total Return: 131.0%
- 5. Caterpillar (CAT)**
- Stock Price on 5/14/20: \$106.19
 - Stock Price on 5/14/21: \$242.23

- Increase/Decrease: \$136.04
 - Total Return: 128.1%
- 6. Goldman Sachs (GS)**
- Stock Price on 5/14/20: \$174.45
 - Stock Price on 5/14/21: \$368.77
 - Increase/Decrease: \$194.32
 - Total Return: 111.40%
- 7. JP Morgan Chase (JPM)**
- Stock Price on 5/14/20: \$87.52
 - Stock Price on 5/14/21: \$164.01
 - Increase/Decrease: \$76.49
 - Total Return: 87.40%
- 8. Alphabet, Inc. (GOOG)**
- Stock Price on 5/14/20: \$1,356.13
 - Stock Price on 5/14/21: \$2,316.16
 - Increase/Decrease: \$960.03
 - Total Return: 70.79%
- 9. Apple, Inc. (AAPL)**
- Stock Price on 5/14/20: \$77.39
 - Stock Price on 5/14/21: \$127.45
 - Increase/Decrease: \$50.06
 - Total Return: 64.70%
- 10. Facebook (FB)**
- Stock Price on 5/14/20: \$206.81
 - Stock Price on 5/14/21: \$315.91
 - Increase/Decrease: \$109.10
 - Total Return: 52.73%
- 11. Microsoft (MSFT)**
- Stock Price on 5/14/20: \$180.53
 - Stock Price on 5/14/21: \$248.15
 - Increase/Decrease: \$67.62

- Total Return: 37.46%
- 12. Amazon (AMZN)**
- Stock Price on 5/14/20: \$2,388.85
 - Stock Price on 5/14/21: \$3,222.90
 - Increase/Decrease: \$834.05
 - Total Return: 34.91%

As you can see from the Stock Rotation portfolio, the changes in value in some of the stocks were largely made up by others in the portfolio. The portfolio overall had a total return of 140.29%. These returns highlight the power of structuring a diverse portfolio of stocks in several market segments and industries.

Theme 3: A month for the record books and President Biden's \$6 trillion 2022 budget:

The U.S. & European stock markets ended the week slightly higher, and it closed the month with solid gains for the Dow Jones, which rose 654.60 during the month, and the S&P 500 also ended the month in the black rising 22.94; meanwhile, the Nasdaq Composite ended the week up and the month with a loss of 213.94.

The U.S. GDP growth number of 6.4% remains on target, and the Initial jobless claims surpassed projections for the second consecutive week by reaching 404,000 vs. 425,000, which was the expectation.

In our view, the markets continued their path, absorbing the GDP and jobs data in a positive way and the overall positive economic note.

The month-ends main headline was President Biden's \$6 trillion 2022 budget; additionally, the Republicans' presented their \$928 billion counterproposals to the White House's \$1.7 trillion infrastructure bill, there may be a

glimmer of hope that some form of A bipartisan deal may occur. This bill contains significant tax increases that may impact the across-the-board U.S. Investment climate.

For investors, the infrastructure bill is the one that has the most interest as the potential tax hikes pose the most significant threat towards the economic recovery.

In the M&A world the most significant bit of news was Amazon's (AMZN) acquisition of the MGM film studios for \$8.45 billion. This acquisition grabs Hollywood's remaining independent studio and is Amazon's largest deal since Whole Foods in 2017 for \$13.7 billion. The stock closed at \$3,269.50, up \$10.45 or 0.32%.

Two key benchmarks reported to end the month:

- **U.S. Personal Income MoM:** that fell -13.14%, versus 20.88% last month. The decrease reflects the lack of stimulus checks that went out in March.
- **U.S. Personal Consumption Expenditures:** rose to 15.07 Trillion, up from 14.54 Trillion last quarter, an increase of 3.66% from the previous quarter.

Monthly Wall Street Summary May 28, 2021:

- **The Dow Jones Industrial Average,** closed at 34,529.45, up 654.60 points or 1.93% and a YTD return of 12.82%.
- **The Standard & Poor's 500,** closed at 4,204.11 up, 22.94 points, or 0.55% and a YTD return of 11.93%.
- **The Nasdaq Composite Index,** closed at 13,748.74, down 213.94 points, or -1.53% and a YTD return of 6.68%.
- **The Birling Capital Puerto Rico Stock Index,** closed at 2,645.85, up 149.70 points, or

6.00% and a YTD return of 29.38%.

- **The U.S. Treasury 10-year note**, closed at 1.58%, down 4.24%, and return of 0.70%.
- **The U.S. Treasury 2-year note** closed at 0.14%, down 12.50, and YTD return of 0.70%.

Monthly Market Close Comparison	5/28/2021	4/30/2021	Return	YTD Return
Dow Jones Industrial Average	34,529.45	33,874.85	1.93%	12.82%
Standard & Poor's 500	4,204.11	4,181.17	0.55%	11.93%
Nasdaq Composite	13,748.74	13,962.68	-1.53%	6.68%
Birling Puerto Rico Stock Index	2,645.85	2,496.15	6.00%	29.38%
U.S. Treasury 10-Year Note	1.58%	1.65%	-4.24%	0.70%
U.S. Treasury 2-Year Note	0.14%	0.16%	-12.50%	0.70%



The Final Word: Creating Self-discipline.

As I watched my niece Cindy and thousands of other college graduates, it dawned on me what words of advice I could give to steer her and others on the right path as they embark on their careers.

After some thought, I offered this advice **"Change is an inevitable part of life, your growth is optional, and use the power of Self-Discipline, is everything to thrive, grow and prosper."**

There are four key elements to achieve self-discipline, and they all work in tandem:

- **Self-Control:** is defined as the ability to manage your actions, feelings, and emotions.
- **Motivation:** It is the process of stimulating people to action to accomplish the goals.
- **Persistence:** is the strong continuation of the course of action despite difficulty or opposition.
- **Goals:** the object of a person's ambition or effort; an aim or desired result.

As John Maxwell would often say, Self-Discipline is **"Small disciplines repeated with consistency every day lead to great achievements gained slowly over time."**

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.

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