As we continue on, we have been in confinement due to the COVID-19 pandemic almost ten months, the year end is a good moment to reflect and evaluate everything that has been happening and how our lives have changed. For one, I, being the optimist that I am, have been trying to identify the “silver lining” within all these events. I must confess it has not been easy, but must admit that, probably, all this has forced us to do things differently. And has also forced us to leap bound and adopt new technologies and ways of doing business that probably, in our comfort zone, we had not even considered. So, for whatever it’s worth, let’s look at the positive aspect and embrace all the good things that this unfortunate event has brought us.

Happy New Year and please keep safe and enjoy this issue of our Zenith Investor.

Miguel L. Vargas-Jiménez
Executive Director & CEO

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 a 3 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.

Francisco Rodríguez-Castro
President & CEO
Birling Capital Advisors, LLC.

“Puerto Rico has become a society that celebrates the initiatives, Instead of the Results.”
Francisco Rodríguez-Castro
As we publish The Zenith Investor for February 2021, we have a new Governor Pedro Pierluisi and a fresh President, Joe Biden. Both elected officials have a demonstrated track record, and there are high expectations of their respective tenures.

One of the goals is to help you understand success and know how to recognize it; so we have dedicated this issue to present you how to measure a successful Presidency and Governorship.

Measuring the Presidency
On January 20, we watched the transition of power in the United States, albeit in a quite unconventional manner. During the swearing-in of Joe Biden as the 46th president of the United States, his inaugural speech that followed was an immediate change of tone and attitude.

As we heard, President Biden’s words proclaimed that the democracy we all live in and cherish is fragile and precious. With these words to the tone of the nation changed, he changed, "Today, we celebrate the triumph, not of a candidate but a cause, the cause of democracy. The will of the people has been heard, and the will of the people has been heeded. We have learned again that democracy is precious. Democracy is fragile, and at this hour, my friends, democracy has prevailed."

We created metrics to evaluate the President or Governor’s performance based on the metrics they inherited and how their respective policies helped the economy, people, markets, credit rating, and other vital metrics.

Every 180 days, we will measure President Biden’s success by comparing the movement in all these variables and then discussing his success and failures. Although this is not an exact science, we aim to provide essential tools to measure success.

**President Biden Gets Busy enacting 30 Executive Orders**

President Biden began his first week in office enacting more than 30 executive orders that alter the course of action of the Federal Response to the Covid-19 pandemic, immigration, economic recovery, among others, and we highlight some.

- **The national face mask and distancing mandate:** in all federal properties, employees, and contractors.
- **The Directorate for Global Health Security and Biodefense created** a total restructuring of the federal government coordination to the COVID-19.
- **The U.S. re-joins the World Health Organization (WHO):** which the Trump administration was leaving, and Dr. Anthony Fauci will be the U.S. representative.
- **Extend eviction, foreclosure, and Student Loan moratoriums:** the President will work on all parties to extend the moratoriums.
- **Paris Climate Agreement:** the U.S. re-joins the accord and places former State Secretary John Kerry as the climate change czar.
- **Stops the Keystone XL pipeline:** revokes oil and gas development at national wildlife monuments.
- **U.S. Census to include non-citizens in numbers:** reversing a Trump administration order in July 2020 to not count undocumented Americans. This change would have resulted in changes in federal money allocation and Congressional representation.
- **Path to citizenship for “Dreamers” undocumented young Americans:** Instructs Congress to grant permanent status and citizenship to Dreamers, which are close to a million young people who were brought to the country as children.
- **Stopped border wall construction:** President Biden ended the national emergency declaration cited by the Trump administration to divert money to the southern wall building.

Our political leader's actions must reflect the people's desire to succeed even if they do not recognize success. Regardless of any party preference or particular interest, we must help restore the sense of common purpose that we so badly need right now. There are no quick fixes; there is only the resolve and determination of our leaders and citizens that will drive our long-term growth.
Forecast 1: President Biden Takes Over, All Focus is on Beating COVID-19.

As we said goodbye to Donald J. Trump's tumultuous Presidency, his legacy will be dividing the U.S. and giving a voice to racists, white supremacists, QAnon conspirators, and many other Trump loyalists that found in Donald Trump a voice and a leader.

President Trump leaves office with a 29% approval rating, the second-lowest in 47 years, and the distinction of being the first president to be impeached twice. From my perspective, President Trump's worst nightmare was the Coronavirus Pandemic and his initial decision to dispel the virus. From that point on, as the nation suffered and the economy tanked, his Presidency went downhill quite quickly. Finally, what made him lose the election were the daily press conferences that were ramblings, full of reality distortion field arguments, and his unwillingness to implement a national plan to protect all U.S. Citizens.

Let's have a quick look at Presidential final approval ratings:

- Trump 29%
- Obama 59%
- Bush 34%
- Clinton 66%
- Bush Sr. 56%
- Carter 34%
- Ford 53%
- Nixon 24%

The Biden administration that took over this past Wednesday faces a divided nation, a surging healthcare crisis that the former administration has all but ignored for months, and national security threats that are rocking the world's oldest democracy.

Some initial steps that must be taken will set the Biden administration's tone, allowing it to surpass the current crisis.

- Increasing the Federal Governments' management of the COVID-19 Pandemic: the COVID-19 is surging with an average of 225,000 cases per day in the last seven days. In comparison, during March–April 2020, the average case growth was 35,000 cases per day, representing a 542% growth in the average cases per day.
- Implementing a Massive Vaccination Program: So far, the vaccination program has been lackluster, slow, and fallen short of anyone's expectations. The Biden administration has promised 100 million vaccinations in 100 days; this is the type of massive program we expect Washington to implement to turn the COVID-19 corner finally.
- Making Economic Growth Sustainable: even as most economists predict that the U.S. will achieve economic growth of 4.3% GNP during 2021, with the COVID-19 surging, the economy begins to lose steam, already some of the key economic benchmarks are showing signs of weakening:
  - The $2.8 Trillion Bazooka: the Biden Proposal of $1.9 trillion and the already approved $908 billion provides a $2.8 trillion bazooka attempts to close the so-called "output gap." The output gap is the level of goods and services the United States would likely produce over the next three years without a Stimulus Package and what it would have with a robust Stimulus Package.
  - The U.S. diminished Global reputation: the Biden foreign policy team will inherit a weakened and ridiculed Foreign policy apparatus, probably the worst in 245 years. This points to a considerable challenge for the administration. However, the team Biden has chosen can hit the ground running with years of experience and critical connections worldwide.
- The Domestic Agenda: Domestic issues are likely to prioritize, especially with the weakened state of the U.S. economy. We have already heard the President-Elect highlight a plan "made in all of America" by all of America's workers. The Biden agenda calls for revitalizing U.S. manufacturing and creating the basis to allow the manufacturing sector to bring its factories back to the United States.

As the Dawn of the Biden Presidency arrived, I wonder if you recall who said these words? “How can we love our country and not love our countrymen? And loving them, reach out a hand when they fall, heal them when they’re sick, and provide opportunities to make them self-sufficient so they will be equal in fact and not just theory.” These words are from one of my favorites' inaugural addresses that Ronald Reagan gave on January 20, 1981, in The Dawn of his own Presidency.

Forecast 2: Global Growth Projected to reach 5.5%: As the race for the COVID-19 cure advances, we have three vaccines approved in the U.S. and a fourth one in the Eurozone have increased the hope of many citizens returning to normalcy. Some feel even though there have been new COVID-19 surges and mutations of the virus have shown up in several nations and with lingering uncertainty, the International Monetary Funds is projecting that the global economy
will grow 5.5% in 2021 and 4.1% in 2022. The 2021 forecast has been revised by 0.3% points to reflect the COVID-19 Vaccines expectations.

For 2020 the global growth resulted in a contraction of -3.5%, which resulted higher than the -4.4% contraction initially projected. The higher than expected results reflect, the more robust than anticipated recoveries in most of the world’s economies.

However, we must warn that with so much uncertainty facing the world, the forecast highly depends on controlling COVID-19.

In the table below, we offer in greater detail each of the selected nations.

### Theme 1: Speculations Engulfed

#### Overview of the Worlds Economic Projections

<table>
<thead>
<tr>
<th>Estimate</th>
<th>World Output</th>
<th>Advanced Economies</th>
<th>United States</th>
<th>Euro Area</th>
<th>Germany</th>
<th>France</th>
<th>Italy</th>
<th>Spain</th>
<th>Japan</th>
<th>United Kingdom</th>
<th>Canada</th>
<th>Other Advanced Economies</th>
<th>Emerging Market and Developing E</th>
<th>Emerging and Developing Asia</th>
<th>China</th>
<th>India 4/</th>
<th>ASEAN-5 5/</th>
<th>Emerging and Developing Europe</th>
<th>Russia</th>
<th>Latin America and the Caribbean</th>
<th>Brazil</th>
<th>Mexico</th>
<th>Middle East and Central Asia</th>
<th>Saudi Arabia</th>
<th>Sub-Saharan Africa</th>
<th>Nigeria</th>
<th>South Africa</th>
<th>Memorandum</th>
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<tbody>
<tr>
<td>World Output</td>
<td>2.8</td>
<td>-3.5</td>
<td>5.5</td>
<td>4.2</td>
<td>1.6</td>
<td>-4.9</td>
<td>4.3</td>
<td>3.1</td>
<td>2.2</td>
<td>-3.4</td>
<td>5.1</td>
<td>2.5</td>
<td>1.3</td>
<td>-7.2</td>
<td>4.2</td>
<td>3.6</td>
<td>0.6</td>
<td>-5.4</td>
<td>3.5</td>
<td>3.1</td>
<td>1.5</td>
<td>-9.0</td>
<td>5.5</td>
<td>4.1</td>
<td>0.3</td>
<td>-9.2</td>
<td>3.0</td>
<td>3.6</td>
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#### World Output Projections

<table>
<thead>
<tr>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>-3.5</td>
<td>5.5</td>
<td>4.2</td>
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<tr>
<td>-4.9</td>
<td>4.3</td>
<td>3.1</td>
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<tr>
<td>5.1</td>
<td>2.5</td>
<td>1.3</td>
</tr>
<tr>
<td>4.2</td>
<td>3.6</td>
<td>0.6</td>
</tr>
<tr>
<td>3.5</td>
<td>3.1</td>
<td>1.5</td>
</tr>
<tr>
<td>3.0</td>
<td>2.4</td>
<td>0.3</td>
</tr>
<tr>
<td>4.7</td>
<td>4.1</td>
<td>2.0</td>
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<td>3.1</td>
<td>2.4</td>
<td>0.3</td>
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<td>1.4</td>
</tr>
<tr>
<td>6.3</td>
<td>5.0</td>
<td>1.9</td>
</tr>
<tr>
<td>6.7</td>
<td>6.3</td>
<td>1.8</td>
</tr>
</tbody>
</table>

Wall Street, a January for the record books: The U.S. Stock

### Game Stop

Game Stop is a U.S. multichannel video game, consumer electronics, and services retailer. The company operates across Europe, Canada, Australia, and the United States. GameStop sells new and second-hand video game hardware, physical and digital video game software, and video game accessories, mainly through GameStop, EB Games, Micromania stores, and international e-commerce sites gamestop.com, ebgames.com.au, and micromania.fr.

The company has been closing stores since 2018, and last year closed 450 stores alone, and when added to the 600 stores that had closed previously, the number in total is 1,050 fewer stores. Sales have been falling steadily at a rate of 29% since 2015. Gamestop has also been recording losses during the past four years; during 2019, it lost $470.9 million. As you can see, this is a retail store facing the same woes most of the retail sector has been facing and by no means is a growth story that would warrant such high valuations to its stock price or so much market attention, for that matter. Wall Street is full of histories such as Game Stop that have made people lose their life savings for ages.

Some of the most famous include the Tulip Bubble, Dot.com Bubble, and the Housing Market Bubble; these bubbles happen because of the mixture of funding access with euphoria. In the end thou, this is a limited market situation that will not last.

If that was not enough, the U.S. GDP data reported by the Bureau of Economic Analysis showed that the U.S. economy grew during the quarter at a pace of 4%.
This number is well below the consensus projections and ending the year of the pandemic 2020 with a -3.5% economic contraction

Wall Street 2020 monthly summary for the month closing January 31;
- The Dow Jones Industrial Average closed at 29,982.62, down 823.66 points, and a year to date return of -2.04%.
- The Standard & Poor's 500 closed at 3,714.24, down 41.83 points, and a year to date return of -1.11%.
- The Nasdaq Composite Index closed at 13,070.69, up 182.44 points, and a year to date return of 1.42%.
- The Birling Puerto Rico Stock Index closed up at 2,004.62, down 40.41 points, and a year to date return of -1.98%.
- The U.S. Treasury 10-year note closed at 1.11%, and a year to date return of 0.10%
- The U.S. Treasury 2-year note closed at 0.13%, and a year to date return of -15.38%.

Theme 2: The Fight for the Cure Update

In the fight for the COVID-19 cure, we can report that Johnson and Johnson announced that its new COVID-19 Vaccine had shown a 66% effectiveness and its one-dose Vaccine. Should the FDA approved the new J&J Vaccine, it would be the third Vaccine to be granted emergency use approval on U.S. soil.

While the speculation on several retail stock e grabbed the headlines late, they are placing aside the very positive earnings season, firing on all cylinders this week.

Out of the 40% or so companies that reported earnings, more than 82% have surpassed their earnings estimates.

Wall Street Close January 29, 2021

Monthly Market Close Comparison

<table>
<thead>
<tr>
<th>Sector</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Materials</td>
<td>-1.97%</td>
</tr>
<tr>
<td>Consumer Cyclical</td>
<td>-2.38%</td>
</tr>
<tr>
<td>Consumer Defensive</td>
<td>-2.06%</td>
</tr>
<tr>
<td>Energy</td>
<td>-3.49%</td>
</tr>
<tr>
<td>Financial Services</td>
<td>-1.96%</td>
</tr>
<tr>
<td>Healthcare</td>
<td>-0.74%</td>
</tr>
<tr>
<td>Industrials</td>
<td>-2.24%</td>
</tr>
<tr>
<td>Technology</td>
<td>-2.46%</td>
</tr>
<tr>
<td>Utilities</td>
<td>-0.54%</td>
</tr>
</tbody>
</table>

U.S. Benchmarks as of 1/30/21

- US Real GDP (Q4) -1.52%
- US Unemployment Rate -3.90%
- US Initial Claims for Unemployment Insurance -5.80%
- US New Single Family House Starts -5.60%
- US Durable Goods New Orders -6.00%
- US Labor Force Participation Rate -4.00%
- US Retail and Food Services Sales 3.60%
Financial Statements Analysis
by C.P.A. Cesar Hernández-Monagas, Principal Birling Capital

The following is a useful summary of how to analyze the financial information of any entity. The summary is divided into the following main topics: income statement analysis, balance sheet analysis, cash flow statement analysis, and rates of return and profitability analysis.

The advantages of financial statement analysis include:

- It provides an idea to the investors about deciding on investing their funds in a particular entity.
- Regulatory authorities can ensure the company following the required accounting standards.
- Government agencies can determine the taxation owed.
- The entity can analyze its performance over a specific period.

1. Income statement analysis

The typical and most asked question about any business is, how much revenue does it have? Followed by, is it profitable? In order to answer these questions, you need to look at the income statement. There are two main types of income statement analysis: vertical and horizontal.

a. Vertical Analysis: With this method of analysis, you look up and down (“vertical”) the income statement to see how every line item compares to revenue as a percentage. For example, in the figure below, you have the total dollar amounts and the percentages, which make up the vertical analysis.

<table>
<thead>
<tr>
<th></th>
<th>Year ended December 31,</th>
<th>Year ended December 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$5,900</td>
<td>$4,000</td>
</tr>
<tr>
<td>COGS</td>
<td>(3,200)</td>
<td>(3,000)</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>1,700</td>
<td>1,000</td>
</tr>
<tr>
<td>Depreciation</td>
<td>(500)</td>
<td>(450)</td>
</tr>
<tr>
<td>SG&amp;A</td>
<td>(300)</td>
<td>(300)</td>
</tr>
<tr>
<td>Interest</td>
<td>(50)</td>
<td>(50)</td>
</tr>
<tr>
<td>Earnings Before Tax</td>
<td>950</td>
<td>200</td>
</tr>
<tr>
<td>Tax</td>
<td>(225)</td>
<td>(20)</td>
</tr>
<tr>
<td>Net Earnings</td>
<td>725</td>
<td>180</td>
</tr>
</tbody>
</table>

The significant metrics to look at are (all as a percentage of revenues):

1. Cost of Goods Sold (COGS)
2. Gross Profit
3. Depreciation
4. S, G & A
5. Interest
6. Earnings before tax
7. Tax
8. Net Earnings
b. **Horizontal Analysis:** With horizontal analysis, you look across ("horizontal") the income statement at the **year-over-year** (YoY) change in each line item. To perform this analysis, you divide the change over two periods over the oldest period's value to get the percentage of change. For example, revenue in 2017 was $4,000, and in 2016, it was $3,000. The YoY change in revenue is equal to $4,000 - $3,000 = $1,000, $1,000/$3,000 which equals 33%.

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<tr>
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<td>(3,000)</td>
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<td>1,000</td>
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<td>(500)</td>
<td>(450)</td>
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</tr>
</tbody>
</table>

2. **Balance sheet and leverage ratios**

The balance sheet metrics can be divided into the following categories: liquidity, leverage, and operational efficiency.

a. **Liquidity ratios:** examine the ability of an organization to pay off its short-term obligations. Examples are:
   i. Quick Ratio
   ii. Current Ratio
   iii. Cash Ratio

b. **Leverage ratios:** examine how the company’s assets and business operations are financed, using debt or equity. Examples are:
   i. **Debt to equity**
   ii. Debt to capital
   iii. Debt to EBITDA
   iv. Interest coverage ratio
   v. Fixed-charge coverage ratio

c. **Operating efficiency ratios:** examine how effectively your company is managing its resources. Examples are:
   i. **Inventory turnover**
   ii. Accounts receivable days
   iii. Accounts payable days
   iv. **Total asset turnover**
   v. Net asset turnover

Using these ratios, we can determine how efficiently a company is generating revenue and how quickly it’s selling inventory. It also can help you to assess the solvency and leverage of a business.
3. Cash flow statement analysis

The cash flow statement will help understand the inflows and outflows of cash over the time period we’re looking at. The cash flow statement consists of the following three sections:

i. **Cash from operations** activities — ie. Increase/decrease in accounts receivables

ii. Cash used in investing activities — ie. Equipment purchases

iii. Cash from financing— ie. Loan proceeds

The cash flow statement is considered one of the most important indicators of the entity’s performance. Many investors first review the entity’s cash flow statement to see if the entity is making money or not and determining its funding requirements.

4. Rates of return and profitability analysis

Using the ratios mentioned before, you will determine the profitability, efficiency, and leverage drivers for any business. The table below shows examples of different ratios and how each ratio interrelates to the other. By using this table, you will have an extremely solid understanding of the business and its financial statements.

![Diagram of financial ratios]

Although there are other internal and external factors that can affect the results of operations of an entity, the use of the different analysis presented above will allow to make informed investment decisions. At Birling Capital, we can help you prepare a monthly financial report analysis for you and your management team. Call us.
The Final Word: Why Character Matters

Francisco Rodríguez-Castro, President & CEO Birling Capital

Since the U.S. became an independent nation, we have had as President farmers, lawyers, generals, movie stars, engineers, and career politicians. We have never had a president who lacks a moral compass and does not distinguish between right and wrong or lacking empathy, compassion, and honesty.

As we analyze the attack on the U.S. Capitol with President Trump's express encouragement, we note how frail is the moral compass of this man and his supporters to attempt such a despicable act.

In Antoine de Saint-Exupéry's The Little Prince, there is a brief discussion about the importance of love and friendship. Simultaneously, the fox asks that the little prince domesticate him; the little prince explains what friendship entails and, to a more substantial part missing someone, needing a person. The confused fox is told, "What is essential is invisible to our eyes," describing friendship's true feelings. The Presidential power, words, and influence, to no small degree, maybe invisible to our eyes; however, its effects of both words or impact, whether right or wrong, can bring a nation to its knees.

There are no words to describe the feeling of despair, disgust, sadness, and disbelief from having listened to President Trump's message in his so-called "Saving America Rally."

The President told his supporters to "stop the steal" of the election while urging his supporters to go to the Capitol to demonstrate against Congress, certifying President-elect Biden's victory. Among the crowd's chants was "Fight for Trump."

In comparison, there is no single measurement for the Presidency. We look at other Presidents and note President Washington's integrity, President Lincoln's fight for equality, President Kennedy's charm and wit, or President Reagan's Ability to unite America more recently, the powerful connection most felt with President Obama.

Suppose we choose to harness Presidential power with a single phrase. In that case, it has to be the Potency of language and words; there is no better example than JFK's inaugural address and its famous line, "Ask not what your country can do for you, ask what can you do for your country."

These words transcend time and are as relevant today as they were in 1961.

President Kennedy rarely talked about himself or used first-person singularly never used in anything he said, in stark contrast to President Trump.

While we have an opportunity to watch each Presidency, one thing that is quite particular in all Presidencies is that all the power, symbols, mantra, and actions are synthesized by one single reaction, the ability to convey a message.

As we revise The Oath of Office for the President of the U.S, which states: "I do solemnly swear that I will faithfully execute the Office of President of the United States, and will to the best of my ability, preserve, protect and defend the Constitution of the United States"; President Trump with his actions violated his oath of office, violated our constitution and is not fit to hold the office of President.

The Presidency is all about character, honesty, respect, confidence, passion, clarity, and caring. Qualities we can conclude that are essential but invisible to our eyes.

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.

Francisco Rodríguez-Castro

President & CEO

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It is not about proposing solutions; It's about executing them seamlessly.

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