



3 FORECASTS,
5 THEMES &
5 REACTIONS

Entrepreneurial Revolution,
Buying or Selling a business?

As we enter this sixth month of confinement due to the COVID-19 pandemic, I think it 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 have to confess it has not been easy, but have to 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.

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.

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, our goal is to become a results-oriented society.”

Francisco Rodríguez-Castro

As we publish, The Zenith Investor for August 2020, we have seen how COVID-19 has impacted many businesses, to the point of extinction. The current surge of the pandemic made Think of one of my favorite movies of all time is Bill Murray's Groundhog Day. A weatherman named Phil relives each day, again and again, each day he begins to change his personality and becomes a better person; the groundhog is also named Phil. Hence, the groundhog becomes a literary double. As the legends say, the groundhog every February 2 is supposed to forecast the weather by looking for his shadow. If it's a sunny day, and he sees it, there will be six more weeks of winter. However, should the day turn out to be cloudy is alleged to mean an early spring. However, if the groundhog sees his shadow using literary and psychological terms, the shadow symbolizes the aspects of our personality that we want to keep at a distance, very much like the character in the movie.

In the current COVID-19 environment has forced a total revamping of the global economy.

We have seen once-mighty corporations fall as Coronavirus has impacted their Business so dramatically that it forced them to file Bankruptcy; it's always a good idea to be one step ahead of the herd.

As our business environment changes, every Entrepreneur has to ask the tough questions:

- Is it time to sell my Business?;
- How can we avoid Bankruptcy?
- How do we get fresh capital?

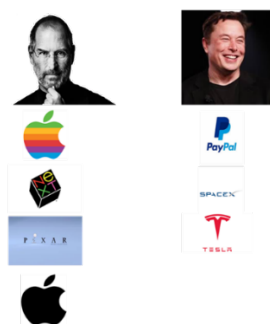
However, before we can answer that we must also begin to answer some critical questions:

- How much is my Business worth?
- How do I sell equity and keep going?
- What could my exit strategy be?
- How do we transition to the next generation?

For most corporations near term, survival is priority One, while Others were attempting to see beyond the Crisis to determine how to position themselves once the COVID-19 Crisis has passed.

The critical question is, 'What will the new standard look like?; Do I see myself in that environment?'

Currently, more than 60% of business owners are baby boomers, which are those born between 1946-1964. As most of them are between the ages of 56-74 and most metrics could be more than ready to sell their Business, If you add the Coronavirus Pandemic, many business owners may be looking for a way to sell.



To determine these opportunities to sell or acquire a business, we share the five types of entrepreneurs with you:

- Lifestyle Entrepreneur**- It's those entrepreneurs who stop growing their Business once they reach their lifestyle. For everyone, it's a different bar. For some, it's having a house, beach house, boat, and plane, for others is being debt-free for others is having 2,000 branches. The key is that once you reach that goal, they stop growing and maybe time to sell.
- Serial Entrepreneur**- is a business person who has started and has run multiple Businesses throughout their career—often selling and starting new ventures always. Some examples are Steve Jobs (Apple, Next, Pixar, Apple) or Elon Musk (Zip2, PayPal, SpaceX, Tesla, Solar City).
- Innovators**: it's the type of Entrepreneur that creates an original

idea and can turn them into a viable business model. Some come to mind like Apple, Google, Uber, Amazon, and Microsoft.

- Hustler**: is the type of Entrepreneur that starts small with little or no capital and works their way up; they are opposed to other stockholders, capital raises, or even partners. They focus a building their Business from the ground up.
- Me Too**: These entrepreneurs copy ideas from other entrepreneurs and improve them enough to make them feel new and innovative. Innovators are 50% hustlers and 50% lifestyle and won't stick to anyone's terms but their own.
- Buying into Entrepreneurship (BIE)**: these are individuals with the resources to purchase a business because they have both the wealth and savvy to do so. They more often than not avoid risks and don't worry about innovation, and their focus is building upon what is already there. Cemeteries are full of all types of entrepreneurs, but the most common kind is the BIE.

Some of the most common challenges of selling a business

As that time to sell becomes closer, as a business owner, you will face some challenges:

- What happens to my family that works here?
- Is the money I have saved enough to help support my lifestyle?
- How do we clean up my financials to show the real business value?
- What happens to me next?

A trusted financial advisor can help every Entrepreneur navigate the waters of selling any business. If you think you are ready to sell your business, we look forward to having a more in-depth discussion to maximize your life's work.

Forecast 1: Will the health of the market and the economy improve.

While it may seem as if a lifetime has gone by, we are only six months into the year 2020. Here in Puerto Rico, we have had earthquakes mixed with the Coronavirus pandemic, and that is

enough to create a significant crisis. However, our job here is to examine the health of the economy and markets and provide you with guidance that will help you make informed decisions.

As we evaluate the year to date, we note the following:

- All-time high record-breaking stocks levels
- The Death of the Bull Market
- A Global Pandemic
- The Fastest and Biggest Recession since the 1930s.
- The most significant exogenous economic shock contraction.

With so much happening during the first two quarters of 2020, one must think that the worst may be behind us, or maybe the worst may be in front of us. We do not know; what we do know that investor sentiment favors the reopening of the economy, even as there are signs that the pandemic may be worsening in 40 out of 50 states. What should we expect during the second half of 2020?

The Coronavirus pandemic pushed the U.S. economy into the first recession in more than 11 years and killing the longest economic expansion in history. The U.S. Real GDP Growth fell to -32.90%, compared to -5.00% last quarter and 3.10% last year and one of the most significant declines since the 1930s.

BIRLING
CONTEMPORARY CAPITAL LLC
www.birlingcapital.com

U.S. Real GDP reported a contraction of -32.90% from -5% in the previous quarter



We review some of the critical benchmarks of the U.S. Economy:

•**U.S. Initial application for Unemployment:** which four weeks of reductions, the last two weeks

we have seen it rising again, last week there were 1.43 million claims

up 1.42 from the previous week; this is much higher than the consensus estimates.

•**U.S. Unemployment Rate:** fell to 11.10% from 13.30% the previous month a decrease of 16.5%.

•**U.S. New Single-Family Houses Sold:** increased to 776,000 or a rise of 13.78%.

•**U.S. Index of Consumer Sentiment:** fell in July to 72.50 down from 78.1 in June 2020 a -7.17% decrease and a -26.32% from last year.

•**U.S. ISM Manufacturing PMI:** rose to 52.60, up from 43.10 last month, a 22.04%.

•**U.S. Existing Home Sales:** were reported to be 4.72 million an increase of 20.72% over the last month.

•**U.S. Real Disposable Income:** fell to 16.03Trillion, down from 16.32T last month.

No one that has bet against the U.S. economy has ever won; we predict that while the economic recovery is still nascent, the rebound will continue, even as in some areas, there will be a resurgence of Coronavirus. While we do not see the economy reaching pre-pandemic levels until 2021, the economy is positioned for continued growth. However, we must mention that we do expect the highest ever bankruptcy levels in the U.S. since the 1930s, with many well-known brands falling into chapter 11.

We note weakness in those businesses with high leverage levels and those in the profoundly impacted sectors, such as tourism, retail, restaurants and foodservice, luxury goods, auto suppliers, and business with weak balance sheets hardest hit.

The Labor Market

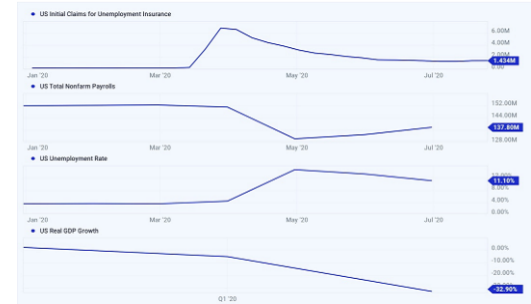
The U.S. Unemployment swung from the all-time low of 3.5% to 14.70% in less than 60 days after the nation was forced to shut down the economy to halt the spread of the Coronavirus pandemic.

We note that two of the biggest industries impacted by the shutdown were that we were able to add jobs as the

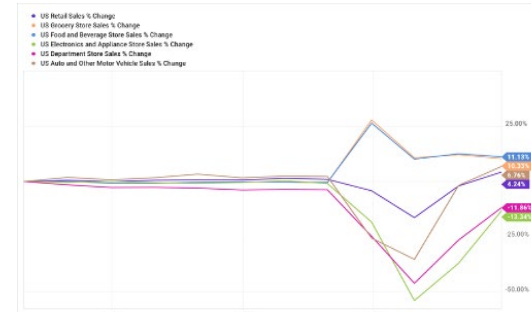
Tourism Industry added 2.1mm and retail added 740k; this translates to 38% of the total job growth, a promising prospect. Another sign of being vigilant is consumer spending, as it represents 70% of the GDP, and the improvement in the labor market will be critical for the overall economic recovery.

BIRLING
CONTEMPORARY CAPITAL LLC
www.birlingcapital.com

The Federal Department of Labor reported that new unemployment claims rose to 1.43 million, or 0.20%. The Gross Domestic Product of the United States contracted by -32.90%.



A closer look at retail sales data indicates that spending patterns are returning to normal. At the height of the COVID recession, we saw spending on food and groceries jump while all other types of spending declined sharply. These trends seem to be trending back to usual levels now in both regards.



Forecast 2: Image of Governor Weakened, Measuring the Governor's Performance after 42 months of the current administration:

Using financial and economic metrics to measure performance, and on that note, this issue of Think Strategically is dedicated to evaluating how the Puerto Rico economy has performed after forty two months in Office of Governor Rosselló and Governor Vazquez. It is important to note that measuring a successful governorship takes much more than these metrics, but they do allow us to measure the overall direction of our economic well-being.

We measure Governor Wanda Vazquez term in Office.

No one can dispute that both governors inherited a Puerto Rico that was declared bankrupt, with a Financial Oversight and Management Board to deal with, and economy in retraction and without access to Capital Markets. To add more pressure, Puerto Rico suffered the impact of Hurricane Maria that brought the island to its knees, the Telegram Chat in July 2019 that forced the resignation of Governor Rossello, the destructive Earthquakes that continue to impact the south-west of Puerto Rico. If these events were not enough, we must now add the fact that Governor Vaquez was referred to the Office of the Special Counsel, under allegations that she used her position for political gain, when distributing aid during the January Earthquakes.

Crisis Separates Pretenders from Players

Throughout history, we have seen that during any crisis, people will always look for a leader to guide them, the coronavirus pandemic and the recent political disaster has placed the Governor in a position that is challenging, uncomfortable and for many navigating uncharted territory. The lack of adequate leadership has placed Puerto Rico on the verge of a healthcare, economic, and political collapse.

On every occasion in my life where I needed guidance, I have reached out to the wisdom of John C. Maxwell, the author and motivational speaker. This past week, during one of our weekly sessions, he said something that I want to share: "On the other side of a storm is the strength that comes from navigating through it; raise your sail and begin. Just because you are struggling, it does not mean you are failing; sometimes, people that are struggling think they are failing—not even close. If you are struggling, it tells me you are still in the game. We don't see these incredible opportunities, first because a problem always surrounds them, we always have to go through the door of the issues.

"So the next time you have adversity in your life, don't allow the crisis to numb you. Be alive, feel, fail, learn. That is what it is all about. There is a hero

within you; during this tough time, let the hero out, let people see the best in you, you be the hero they need."

You see, "Crisis Separates Pretenders from Players." As we have seen in this period, there is an incredible crisis of leadership in Puerto Rico.

We have developed this measurement scorecard as an aide for achieving success and recognizing it.

We see a severe deterioration in:

- Erosion in the image, trust, and credibility of the figure of the Governor
- Erosion in the image, confidence and credibility of many of the agency heads.
- Unemployment rose to 38.20% for June 2020, an increase of 226.50% in the last 42 months.
- Unemployment claims increased to 330,353 an increase of 246.75%
- Also, our labor participation rate dropped to 39% and continues to fall.
- GDP growth rate for 2020 is projected to contract -6.00%.
- 10,000 to 15,000 business will go bankrupt, or close eliminating over 100,000 jobs.

All the improvements in unemployment, jobs growth that had occurred by January 2020, are gone. The median household income that had improved with 6.65% is now falling rapidly. Also, the GNP growth rate of 1.7% achieved for 2019 has turned into a contraction of -6.00%.

Our tourism sector that suffered considerably during the aftermath of Maria, then dealt with the earthquakes, is again actively coping with the COVID-19 impact.

Puerto Rico has what is needed to realize our potential, grow our economy and, at

the same time, break with the fiscal imprudence that has hampered our economic evolution.



On Inauguration Day on January 2, 2017, the Government inherited the following Puerto Rico benchmarks shown in the table below and after 42 months these are the results:

Some of the fiscal advances incorporated in the Certified Fiscal Plan now have to be reworked. The pandemic derailed most of the initiatives; however, we must mention that this the Financial Oversight and Management Board Puerto Rico Budget, as the Government budget was not approved.

In our view, the most essential advances are as follows:

- **Placing Puerto Rico on the Washington agenda-** for decades Puerto Rico was absent from the Washington agenda, Governor Rossello and Maria changed this.
- **Seeking Medicare and Medicaid parity-** Puerto Ricans pay 100% of the Medicare and Medicaid insurance costs, yet we receive less than 40% of the benefits due to us, that in any book is a discriminatory practice, the Governor has taken that message to the point that parity may be in the horizon.
- **The inflow of reconstruction funds is significant:** According to their data, the Island has been assigned \$83 billion

Puerto Rico Benchmarks to measure progress			
Governor Vazquez	Jun/30/2020	Jan/02/17	Change
Price Per Liter Regular Gasoline	\$0.595	\$0.65	-8.32%
Cement Sales	1,034,000	848,700	21.83%
Unemployment*	38.20%	11.70%	226.50%
Claims for unemployment	330,353	95,272	246.75%
Birling Puerto Rico Stock Index	1,473.37	1,131.21	30.25%
General Fund Revenue*	\$9,815,000	\$9,300,000	5.54%
Real Terms GNP Growth Rate	-6.00%	-4.70%	-28%
Labor-force participation rate	39.00%	40.60%	-3.94%
Houses Sold	7,794	7,743	0.66%
Home ownership rate	63.90%	62.90%	1.59%
Median household income	\$20,873.80	\$18,826.00	10.88%
National debt	\$69 Billiones +	\$69 Billiones+	Sin Cambio
Credit Ratings	D	D	Default
Access to markets	Sin acceso	Sin acceso	Sin cambio

*Certified Fiscal Plan Government of P.R.

related to hurricanes, \$600 million associated with earthquakes and \$14 billion related to Covid-19 for a grand total of \$97.6 billion, this enough to rebuild all the critical infrastructure in Puerto Rico.

On the negative side, most experts agree that most of the Governors challenges have been after natural disasters, below some observations:

•Not working with the legislature and the Financial Oversight and Management Board as a team: The best way to cure the financial crisis the has affected Puerto Rico is by reaching agreements with the FOMB, Legislature, and the U.S. Congress. Doing so will allow Puerto Rico to accomplish the needed five years of balanced budgets and the eventual return to the capital markets. This will imply significant budget cuts and changes to the way Puerto Rico conducts its operations.

•Puerto Rico Debt Burden: the still mostly unresolved issues related to the Government's debt will affect the Government's advances in other areas.

•Puerto Rico Systemic Risk in Healthcare:the challenges facing Puerto Rico hospitals and even those in the U.S. is the fact that they are being forced to either reduce costs at the expense of creating potentially devastating impacts on the communities served. This scenario to this indubitable Hobsons Choice has developed through profound public policy and market moves that transfer financial risk into local healthcare systems. With little or no financing available in Puerto Rico, we have considerable similarities to the systemic risk crisis of 2008. Hospitals have lost so far \$288.9 milion.

•Demographic Changes and loss of Population: Although the recent data suggests, migration will be even more severe than projected. There is a consensus that by 2025 our Population will be near 2.8 million. This population decrease will place additional pressure on scarce government resources.

We provide a roadmap for regulating the Government through the evaluation of significant economic benchmarks. We must find ways to strengthen the way the Government is managed, and this is done if we have the appropriate metrics.

Benchmarking is a necessary function of Government as It can enhance oversight and accountability of programs, improve effectiveness and efficiency of services, and assess what works and what doesn't while providing critical information needed for making difficult policy decisions.

More than any time in recent history, Puerto Rico's destiny is in the balance and what direction we take is our choice. There are dangers related to our freedom, our democracy, and our way of life.

We chose for decades to ignore the signs of impending doom brought on by our wrongful ways, always with the hope that somehow a fix would be found.

An accurate measure of the people's strength is how they rise to accept their circumstances and change their ways.

Forecast 3: Digging Deeper into 2Q 2020:

Stock markets around the world rallied in the second quarter of 2020, recouping much of the ground lost in the first quarter of the year as the Coronavirus pandemic shook the overall economy and dominated headlines. The tech dominated Nasdaq Composite Index returned to all-time high territory in June while the S&P 500 and Dow 30 ended the quarter 7% and 11% off previous highs respectively. The strong stock market amidst all the uncertainty in the economy has been a head-scratcher for many. We'll look at the performance of different sectors, several asset classes, some leading and lagging economic indicators, and some of the government policy that has been implemented – all of which may help to shed some light on these confusing times.

At the end of the day however, the stock market has mostly reinforced a few of the guiding principals we should all remember,

Markets are not predictable in the short term, stock prices are driven purely by supply and demand, and while markets are influenced by the broader economy they are not directly linked.



US Markets	Q2 2020 Return
NASDAQ Composite Total Return	30.95%
S&P 500 Total Return	20.54%
Dow Jones Industrial Average Total Return	18.51%

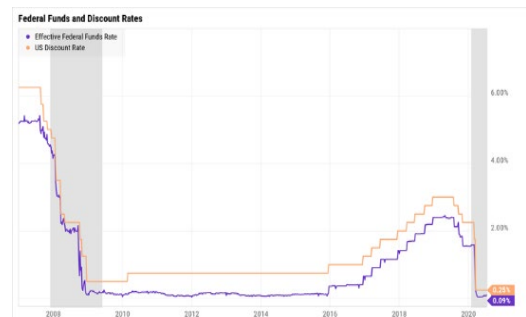
Theme 1: How much more firepower does the Federal Reserve Bank have?

In the mind of many investors in the upcoming Investors Federal Reserve Bank monetary policy to see in which direction the bank goes to help improve the U.S. economy from the ravages of a new surge in COVID-19.

As Coronavirus surges on more than 30 states, most states are rolling back the opening of many businesses that had been allowed to open.

We also have seen the U.S. stock markets take a more cautious tone and it seem as if the momentum and optimism that was driving the markets are slipping away.

The Fed has already cut interest rates to zero and pledged to buy an all government debt on the market. It has also implemented a vast array of emergency measures that include granting markets enough liquidity, acquiring corporate debt or municipal bonds, and roll out a main street lending program.



Since March, most of the Fed's timely action allowed the U.S. stock market to recuperate rising north of 45%.

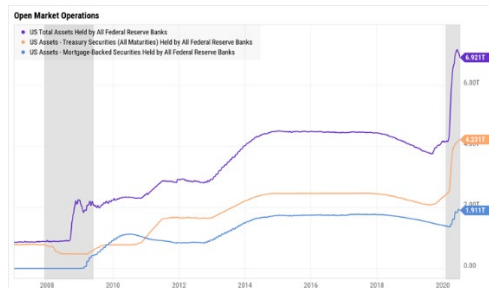
However, there are growing concerns about how these actions will play out as the economy is seeking to recover.

Most analysts are attempting to figure out which non-traditional tools the Fed may have at their disposal.

Fed Chair Jerome Powell has stated that the Fed firepower and tool are vast and varied.

The first critical step is determining the guidance the Fed provides for the direction it takes on interest rates.

The fed stayed active in their pursuit of easing over the last few months. In an unprecedented move, reserve requirements were lowered to zero while actual reserves skyrocketed to all-time highs. This could be an indication that financial institutions are not incentivized to lend even as deposits are increasing. Open market operations, where the fed buys and sells assets in the open market, continued with an apparent effort to keep rates low by reducing the supply (and therefore creating demand) for treasuries and mortgage debt. This activity, coupled with the still historic low benchmark fed funds rate, has maintained very low interest rates. It's apparent that the fed intends to take a hawkish (active) approach to combating the economic weakness brought on by the coronavirus pandemic.



Theme 2: Birling Puerto Rico Stock Index Performance from January 1- July 31, 2020.

The Puerto Rico Stock Index (PRSI) is a market value-weighted index, composed of five (5) companies headquartered and with their principal place of business in Puerto Rico. All companies are traded on national stock markets NYSE, AMEX, or NASDAQ.

The Puerto Rico Stock Index includes the following institutions, and we are ranking them according to the performance during the period from January 1 to July 31, 2020.

1)Triple S (GTS): closed July 31, at \$19.40, achieving a return of 3.24%, beating both the Dow Jones and Birling Capital PRSI.

2) Evertec Inc. (EVTC): closed July 31, at \$31.04 and delivered a total return of -8.94% that beat the Birling Capital PRSI.

3)Popular, Inc. (BPOP): closed July 31, at \$37.11 achieved a performance of -37.02%, lagging both the Dow Jones and the Birling Capital PRSI.

4)OFG Bancorp. (OFG): closed July 31, at \$13.08, achieved a total return of -44.34% lagging both the Dow Jones Industrial Average and the Birling Capital PRSI.

5)First Bancorp. (FBP): closed July 31, at \$5.55 delivered a total performance of -48.38% lagging both the Dow Jones Industrial Average and the Birling Capital PRSI.

Theme 3: Month in Markets: July 2020 U.S. GDP Contraction, Surge in COVID-19 & Tech Stocks, sway markets, the U.S. Stock markets ended the month with with a bang driven by the quarterly earnings of Apple, Microsoft, Amazon, Facebook and the expectation that the Stimulus 4 Bill, which was presented by Senate Republicans with \$1 trillion price tag and has the blessing of President Trump and Treasury Secretary Steven Mnuchin, may be the basis for discussion with Democrats. They are said to meet Saturday to discuss the next virus-relief package.

Investors are cautiously optimistic.

Results for July 31, 2020

- The Dow Jones Industrial Average closed at 26,428.74 up 615.86 points or 2.39%.
- The Standard & Poor's 500 closed at 3,271.22 up 170.90 points or 5.51%.
- The Nasdaq closed at 10,745.27 up 686.50 or 6.82%
- Birling Puerto Rico Stock Index closed at 1,542.30 up 92.08 points or 6.35%.
- The U.S Treasury 10-year note closed at 0.56% down 15.15%.
- The U.S. Treasury 2-year note closed at 0.11% down 31.25%

The Federal Reserve has warned the fate of the world's largest economy would "depend significantly on the course of the virus" as the U.S. central bank extended measures to deal with an international shortage of dollars. We believe that the Fed will change its monetary policy and will continue using its powers to support the recovery.

Following the warning the U.S. announced, that Real Gross Domestic Product (GDP) decreased -32.9 percent in the second quarter of 2020, which is better than the consensus of -34.1% and much worse than the first quarter, -5.0%.

The Federal Department of Labor reported that new unemployment claims rose to 1.43 million, or 0.70%, the second week in a row.

The decline in second-quarter GDP is a direct reflection of the COVID-19, Lockdown orders issued since March.

The significant decrease in GDP raised fears among investors that the economic recovery may be severely affected.



Also, Germany's Gross Domestic Product contracted 10.1% the most significant reduction in fifty years, and the contraction erased ten years of export growth.

Investors should vigilant of these trends:

When dealing with the stock market one adds several layers of risk and market dynamics, in light of all that is going on in the market now, we want to provide some trends that will help you navigate this scenario.

•The Economic Recovery

Affected: The significant rise in the prices of most stocks have been based on the reopening of the U.S. economy, mixed with the timely fiscal stimulus from Congress and very aggressive monetary policy

implemented by the Federal Reserve. The COVID-19 surge is derailing economic recovery with a dramatic GDP reduction and , forcing more people to file for unemployment Investors must be quite vigilant of all developments to stay ahead.

•Corporate Earnings a mixed bag:

We are seeing both companies beating estimates and companies delivering dismal results. We have seen companies that range from retail to food sales to manufacturing report worse than expected results, and Some companies mainly tech companies and some banks have reported outsized results, we discuss further some of their achievements.

Theme 4: Some Companies that defy the odds:



More often than not, the fear of failure is one of the most significant barriers to success. The fear of failure stops most people from making substantial changes in their lives, such as changing jobs, becoming entrepreneurs, or even getting to know people.

The fear of failure is often the toughest obstacle to surpass in leadership; however, those who do, achieve the price of leadership. Often, the fear of failure makes some people not try, and this adage fully applies to investing. Nonetheless, as we can note with some leaders, instead of letting failure slow them down, they harness the power of failure as "fail forward." We decided to highlight companies that have used the COVID-19 to transform their business:

•Microsoft (MSFT) reported revenues of \$38.03 billion vs. the \$36.50 billion, which was the consensus, that is a growth of 13% on an annualized basis, Net income was \$11.2 billion.

- Stock price on Jan 2, 2020, \$160.63

- Stock price on July 31, 2020, \$205.11
 - Price change \$44.48
 - Change 27.69%
- Tesla (TSLA)** reported revenues of \$6.04 billion vs. \$5.37 billion, which was the consensus and Net income: \$104 million (GAAP).

- Stock price on Jan 2, 2020, \$430.26
- Stock price on July 31, 2020, \$1,435.64
- Price change \$1,005.38
- Change 233.66%

•Apple, Inc. (AAPL) reported revenues of \$59.7 billion or 11% higher vs \$53.8 billion, net income of \$11.2 billion vs. \$10.0 billion.

- Stock price on Jan 2, 2020, \$300.35
- Stock price on July 31, 2020, \$426.20
- Price change \$125.85
- Change 41.90%

•Popular, Inc. (BPOP) reported revenues of \$500.4 million vs. \$410.0 million, net income of \$128 million vs. \$34.3 million.

- Stock price on Jan 2, 2020, \$58.93
- Stock price on July 31, 2020, \$37.11
- Price change -\$21.82
- Change -37.02%

•OFG Bancorp. (OFG) reported revenues of \$128.2 million vs. \$131.3, net income of \$20.2 million vs. \$173k.

- Stock price on Jan 2, 2020, \$23.50
- Stock price on July 31, 2020, \$13.08
- Price change -\$10.17
- Change -44.34%.

Theme 5: Three of America's best-known companies reported dismal results:

•McDonald's (MCD) Revenues declined to \$3.761.5 billion or 30%, and Net income fell to \$483.8million or 68%, with systemwide sales fell 24%. McDonald's stock closed at \$196.19 down \$5.28 or 2.51%.

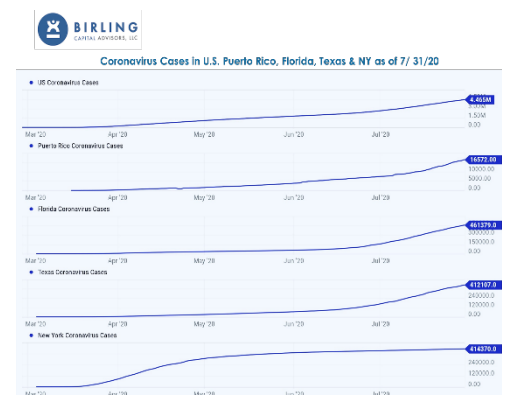
•3M (MMM) Sales of \$7.2 billion, down 12.2 percent year-on-year. Second-quarter operating income of \$1.7 billion a 15.6% increase. The 3M stock closed at \$155.31 down \$7.93 or -4.86%.

•Harley-Davidson (HOG) reported second-quarter sales of \$865 million down 47% and a net loss of (\$92) million of 147% down compared to the previous quarter. Total motorcycles sold were 28.4 million down from 88.8 million in the first quarter, 59% less. The Harley stock closed at \$29.06 down \$0.22 or -0.75%.



The Coronavirus Surge during July, may kill the economy.

The U.S. reported a 70.22% rise. Puerto Rico reported a 122% increase. Florida reported a 203% rise. Texas reported a 157.5% rise.





THE IRS "DIRTY DOZEN"

by CPA Cesar Hernández-Monagas, Principal Birling Capital



In the 1967 movie by the same title, the U.S. Army singled out 12 callous guys, murderers and rapists and men like that, and assigns them to wipe out a chateau where a lot of German officers spend their holidays. Using the movie title as a metaphor, the IRS has been annually publishing its "DIRTY DOZEN," the most common scams for the year. The 2020 list was issued last week, and as anyone would expect, the IRS placed particular emphasis on schemes related to the coronavirus relief, including unemployment benefits and economic impact payments. IRS Commissioner Chuck Rettig explained that "Tax scams tend to rise during the tax season or crises, and scam artists are using the pandemic to try stealing money and information from honest taxpayers."

The following are the most common scams for 2020:

1. Phishing: This scam involves the use of fake emails and websites used to try to steal personal information. Government agencies have been emphatic that they never initiate contact with citizens via email. People who receive an email related to a tax charge, refund, or other government economic assistance, should contact the agency directly before proceeding with the email request. The IRS Criminal Investigation division has seen a tremendous increase in phishing schemes that include keywords, such as "coronavirus," "COVID-19," and "Stimulus."

2. Fake charities: this is a scam that appears in the list year after year.

Criminals take advantage of natural disasters or situations like the one we are currently living with COVID-19 to create fake charities and steal money from those willing to help their neighbors in times of need. As in phishing, emails and websites are used to attract the interest of people interested in helping, although, under this scam, regular mail, phone calls, texts, and even in-person visits are also used.

In many cases, names, and logos similar to real charities are used to confuse people into sending money or sharing their personal information. Individuals are advised to request the IRS employer identification number (EIN) when contacted by any charity, which can be used to validate the entity. They are also encouraged to use the [irs.gov](https://www.irs.gov) website to find a list of legitimate and qualified charities.

3. Threatening impersonator phone calls: The most common of these types of calls is the one in which the person is threatened with legal action if he/she does not make the payment due to the IRS in that instant. Using a sense of urgency and fear, the criminal tries to force the victim to pay his alleged debt now. Other types of threats used by criminals are arrest, deportation, or revocation of licenses if payment is not made immediately. Again, government agencies would never use the phone to request immediate payments or to request personal and financial information.

4. Social media scams: This is the first time these scams are included in the list. Under this modality, criminals use the information that people share on their social media networks and pose as friends, family, or co-workers to obtain personal and financial information from their victims.

What makes this method dangerous is that people are used to sharing information with their relatives on social media without validating that the person on the other side is whom they claim to be.

5. Economic impact payment or refund theft: As a result of the COVID-19, this scam is well active. Criminals use personal information from others to request economic assistance available to those affected by the disaster or, in other cases, to claim refunds due to others. This type of scam has been seen nationally with the economic impact checks that patients from nursing homes and care facilities are supposed to receive.

Employees of these establishments were requesting the economic impact payments on behalf of their patients for personal use or the institution's use without patients being aware.

6. Senior fraud: This is one of the most common scams annually. Senior citizens tend to rely on third parties to perform their daily tasks, and those third parties take advantage of that to obtain their personal and financial information. Close relatives must be somehow involved in their elder families' affairs to reduce the likelihood of a scam.

7. Scams targeting non-English speakers: this modality is similar to the number 3, with the peculiarity that is aimed at people with difficulty understanding the English language. Using the threat of imprisonment, deportation, or revocation of a license, criminals force their victims to provide them with financial and/or personal information.

8. Unscrupulous return preparers: This is another of the most common scams. As taxpayers, we need to be careful when selecting a person to prepare our income tax returns. There is what is known as "ghost preparers", which help you prepare your returns but never sign them as a preparer. This person makes you think that you completed the whole process and then alters the information on the return to keep the refunds of its clients. Tax preparers must always have a preparer tax identification number, and as preparers, they must sign the forms they complete.

9. Offer-in-compromise mills: This scam is new to the list. This scam involves companies that promise to help you pay off your tax-related debts for "pennies on the dollar." Using what is called an offer in compromise, a formal method used by the IRS to pay off debts for less money, they force you to pay onerous fees in exchange for the reduction in debt. Usually, the victim ends up paying more in fees than he/she originally owed in his tax debt.

10. Fake payments with repayment demand: In this scam, criminals use their victims' information to file fraudulent tax returns whose refunds are deposited directly into the victims' bank account. Once the money is deposited, the criminal contacts the victim posing as an IRS agent and informs the victim that there was an error with their refund, so it must be returned immediately to avoid fines and penalties.

One modality of this scam is that the victim is asked to return the money in gift cards or in another form which makes it easier for the criminal to use the money without being identified

11. Payroll and HR scams: Using different types of communication, telephone, email, or text, the criminal poses as the victim and gets the victim's employer to change the address to which the payroll checks are sent or the bank account the direct deposit is made. The mode of using email is known as business email compromise (BEC).

12. Ransomware: Another new scam on the list. Under this scam, computer system failures or deficiencies are used to infect the victim's computers, servers, or networks. Using what is known as Malware, a software that victim inadvertently downloads, the criminal can track the keystrokes and activity of the infected computer. Using this software, the criminal identifies sensitive or critical information and blocks it so that the user does not have access to it. In some cases, complete networks are blocked. Victims usually do not know they've been infected until they receive a notification requesting a ransom to retrieve their data. Typically, payments are made through anonymized platforms and using virtual currency, such as bitcoin.

We exhort you to be incredibly careful when giving personal and financial information to third parties. Only share this information after validating the identity of the person you are communicating with. If you understand that you or your company has been the victim of fraud, contact the relevant agency – IRS, Treasury Department, Police, or FBI – to prevent these people from deceiving others.

The Final Word: Has President Trump risen to the challenge?

Puerto Rico is experiencing the economic effects COVID-19 pandemic as well as a surge in cases with now 16,572. Another crisis of more significant magnitude is unfolding in the U.S as it reaches 4.6 million COVID-19 cases and 154,000 deaths. As citizens, we must be concerned with President Trump's actions, for months dismissing the crisis, and then eroding his administration's efforts to fight the coronavirus outbreak. He blatantly resisted attempts to plan for worst-case scenarios, overturning the nation's best Scientists while repeating only the warnings that he chose to hear, most of it anecdotal in nature. President Trump has only one thing in his mind, his reelection, and it is a well-known fact that since 1912 no sitting President with an economy in recession has been reelected. His only claim to fame was that the stock market was thriving, corporate earnings were up, unemployment was down, and the overall jobs market was growing. When you take those away, his chances of reelection become greatly diminished.

A **Quinnipiac University National Poll** published on July 15, 2020, which asked voters to choose between Joe Biden vs. Donald Trump on several aspects of American Issues, we discussed the results below.

The poll showed that voters now give Joe Biden a slight lead over Donald Trump in a when it comes to handling the economy. Voters polled say 50% – 45% that Joe Biden would do a better job handling the economy, a reversal from June when Donald Trump held a slight lead 51% - 46%

When asked about other Critical Issues, these are the results:

- Handling a crisis, Biden leads 57% -38%.
- Managing health care, Biden leads 58% -35%;
- The coronavirus response, Biden leads 59% - 35%;
- Addressing racial inequality, Biden leads 62% - 30%.
- On Honesty:
Trump: 31% percent say "yes;" 66% say "no;"
Biden: 46% say "yes;" 42% say "no."

We have had as president from farmers to movie stars, one thing we never have in recent memory was a president who lacks compassion, without compassion in any crisis you cannot be a good leader. In the history of the U.S., its greatest presidents have been those who served during great times of crisis. Has President Trump risen to the challenge?

...Three things in life are best proven in a crisis, Compassion, Leadership, and Character.

In the end, the presidency is all about compassion, leadership, and character, which are essential but invisible to our eyes.

There is no better education than adversity.

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



Francisco Rodriguez-Castro, President & CEO • frc@birlingcapital.com •
PO Box 10817 San Juan, PR 00922 • 787.247.2500 • 787.645.8430

About Birling Capital

Birling Capital is a corporate advisory & consulting firm that offers broad corporate finance & advisory services. We focus on identifying and resolving organizational finance-related issues. We use a holistic approach to both assets and liabilities sides with integrated Business, family needs, and objectives. Over the past two decades, our firm's principals advised on more than hundreds of transactions in the corporate, healthcare, education, insurance, banking sectors.

You have problems... We provide long term solutions. Doing the right thing at the right time.

The Zenith Investor© is a publication prepared, edited and owned by Birling Capital LLC and is a summary of certain recent geopolitical, economic, market and other developments that may be of interest to clients of Birling Capital LLC. This report is intended for general information purposes only, is not a complete summary of the matters referred to, and does not represent investment, legal, regulatory or tax advice. Recipients of this report are cautioned to seek appropriate professional advice regarding any of the matters discussed in this report considering the recipients' own situation. Birling Capital does not undertake to keep the recipients of this report advised of future developments or of changes in any of the matters discussed in this report. Birling Capital. The man and log symbol and Birling Capital are among the registered trademarks of Birling Capital. All rights reserved.