

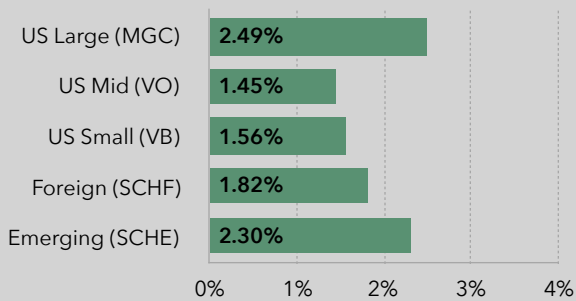
## October 2017

### Economic Data

- The employment situation rebounded from hurricane-related losses, adding 261,000 jobs in October; the unemployment rate fell one-tenth to 4.1%, the lowest rate in 17 years, but only because 968,000 left the labor force
- Existing home sales were up 0.7% in September while the volatile new home sales surged 18.9%
- Year-over-year inflation (CPI) rose three-tenths to 2.2% in September on higher energy costs
- Retail sales rose 1.6% in September as hurricane victims replaced automobiles and prices at the pump rose 5.8%

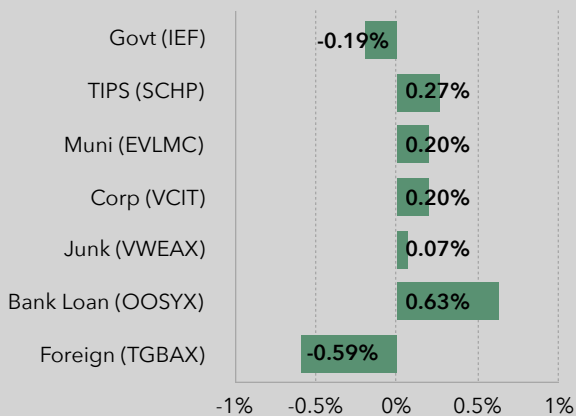
### Stocks

October Returns



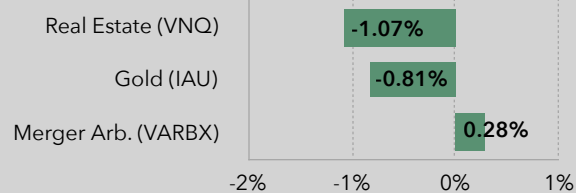
### Bonds

October Returns



### Alternatives

October Returns



Performance data provided by Morningstar.

The brain uses two systems to process information. The first type is intuitive but lazy, rapidly forming judgements with no conscious input. The second system is slow, reflective, and is not guided by emotions. It is that second system – type 2 – that we want in control of our investment portfolios.

### Place Your HQ2 Bets!

To say Amazon – a stock I like, by the way – has disrupted the retail industry would be an understatement. They are gutting brick and mortar down to the studs, and they haven't stopped there. The Whole Foods acquisition was a major shot across the bow for the grocery sector, and now they have pharmaceutical sales in their cross hairs. Add that to a growing list of Amazon's other businesses that includes music streaming, video content production and steaming (64% of U.S. Households have Amazon Prime, according to Forbes), advertising and product search, cloud storage, web services, consumer electronics (Kindle, Fire, Echo), robotics, and even a service called Twitch that allows you to watch *other* people play video games. Back in my day, we had to play the video games *ourselves*!

Amazon's empire is growing, and apparently Seattle is starting to feel a bit cramped. The company has been making headlines over the past couple months with its announcement that it will be building a second headquarters somewhere in North America that promises to eventually employ as many as 50,000 high-paid workers and result in over \$5 billion in capital investment. The company reported that 238 cities and regions responded to their RFP (request for proposal) for a site, which is incredible given the fact that these are governments, which as a whole are notoriously slow at doing anything, and they were only given six weeks to get their proposals together. Municipalities were tripping over themselves in a shameful attempt to plant the biggest, wettest kiss on Amazon's ass. New Jersey's \$7 billion in tax incentives makes it the most desperate looking one at the dance. The majority of these entrants were just a waste of resources, as they don't even come close to meeting Amazon's minimum requirements, which were clearly laid out in the RFP.

Criticism aside, the forthcoming announcement of the winning bid early next year will no doubt have a significant positive impact on the economy and real estate prices in that area, so it's a story many homeowners, including myself, are very interested in following. A number of articles have already been written enumerating the favorites, but I have my own opinions and thought it would be fun, so I put together what I think the list should be.

First, I ruled out any place outside of the U.S., because the political risk would be too bigly given the current administration. I think Amazon wants to use this as a way to expand their political clout, not destroy it. With the RFP requirement of a metro area population of at least one million, this narrowed it down to 53 contenders.

It's a smart idea, especially when you get as big as Amazon, to keep the interests of as many politicians and the states they represent aligned with your own. I feel like Boeing is necessarily a master of this geographic political strategy, given how much of their business is tied to government contracts. I'm sure it's no accident they have operations and suppliers in all 50 states. They even keep a single employee in Rhode Island and another one in Wyoming just to make it a clean sweep. With this strategy in mind, I don't think setting up shop in Portland or San Francisco or anywhere else on the west coast does them much good, so I am betting HQ2 will be somewhere east of the Rockies. This narrows the list further to 41.

The RFP also requires the site be close to a major international airport, have direct access to mass transit, a stable and business-friendly environment (*read: we expect tax breaks and lots of them*), and a highly educated labor pool and strong local university system, among other criteria. With all this in mind, here is my top ten list (take it with a grain of salt):

**10. Atlanta.** *Why it wins:* Hartsfield-Jackson is the busiest airport in the world by passenger traffic. *Why it doesn't:* Hartsfield-Jackson is the busiest airport in the world by passenger traffic.

**9. Orlando.** *Why it wins:* Orlando is my top pick for Florida, and it gets the nod over Tampa and Miami because it has a more tech-based economy. Being in the opposite corner of the country as Seattle and in a swing state helps make a political case. Sunshine might be a draw for those tired of the dreary weather in Seattle, too. *Why it doesn't:* It's Florida.

**8. Washington DC.** *Why it wins:* Bezos just bought the biggest mansion in DC, plus he owns the Washington Post, so one might think this would be a logical choice. *Why it doesn't:* Real estate is just as expensive as Seattle, and I think being right in the nation's capitol smells too much of corporatism. The RFP specifically requested the airport must have direct flights to Washington DC, which to me implies they have already ruled it out (along with San Francisco and New York City).

**7. Philadelphia.** *Why it wins:* Philadelphia is ideally located right in between New York and DC, and is less than two hours by train to either. Wharton is in Philly, homes in the city are cheap, and Pennsylvania has become a major nexus for Amazon's fulfillment centers. *Why it doesn't:* Not sure – it's the only one on this list I've never bothered to go to.

**6. Austin.** *Why it wins:* Austin is a popular favorite, and I think it has a legitimate chance. The SXSW home attracts a lot of tech talent, and real estate is still kind of affordable. *Why it doesn't:* Austin banned Uber and Lyft until a state law passed earlier this year superseded the rule, proving they are generally hostile toward anything that doesn't "keep it weird," whatever that means. A light rail to the airport, which seems like a good idea, has been repeatedly rejected since the 1970's. Plus, Whole Foods is already headquartered in Austin.

**5. Raleigh.** *Why it wins:* Raleigh is an intriguing choice, with the Research Triangle providing a well-educated employee pool for Amazon to tap into. Like Florida, North Carolina is a swing state that fits our geographic and political strategy. Real estate prices are very reasonable as well, and traffic is a breeze. *Why it doesn't:* The lack of any mass transit that doesn't involve getting on a bus is a major drawback.

**4. Boston.** *Why it wins:* Boston is reportedly a top pick for many Amazon executives – presumably the ones who graduated from Harvard and MIT. The proximity to those universities certainly checks a big box. *Why it doesn't:* relatively high real estate prices is a knock against Beantown. Also, Amazon Robotics is already located just north of Boston, so this might not follow our aforementioned "Boeing Strategy".

**3. Minneapolis.** *Why it wins:* I'm biased after living in Minneapolis for six years, but I honestly believe Minneapolis is a kindred spirit of Seattle. Both cities are bicycle friendly and enjoy active, outdoor lifestyles. The Twin Cities also have light rail access to a major international airport, a number of universities, and low real estate prices. *Why it doesn't:* People may rarely move away from Minneapolis, but they also rarely move to it. Plus they only offered a modest \$3 million in incentives, which I applaud.

**2. Denver.** *Why it wins:* Central location, high quality of life, and them there mountains. *Why it doesn't:* The airport is an obnoxious 28 miles outside the city center and can take upwards of an hour to get to by car. A new train line was completed last year that supposedly cuts the time to 37 minutes, but trains only leave every 30 minutes after 6:30 pm.

**1. Chicago.** *Why it wins:* It's my list and I want my condo to appreciate, so this is a good part wishful thinking. Chicago does, however, have two international airports with direct "L" train access, the top two MBA programs in the world (according to *The Economist*), affordable real estate, and one of the best food scenes in the country. We also have experience wooing Seattle companies, as sixteen years ago none other than Boeing moved their HQ here. *Why it doesn't:* Crime, traffic, and a failing pension system. Also, our politicians are accustomed to getting bribes, not giving them out.

## Meet the New Chair, Same as the Old Chair

Jerome Powell was nominated to succeed Janey Yelen as the Chairman of the Federal Reserve. He is widely expected to continue the policies of Yellen, which means the market didn't seem to care much at all. I honestly don't know much about Powell, other than he's the first non-PhD to helm the Fed in 40 years. That doesn't mean he's a dum-dum, though. I have to wonder, though, if Janet Yellen was so great, why replace her? He's just another version of her, but, you know, an old white man.

Anyway, expect the Fed's tightening to go on as scheduled, with reduced repurchases of Treasury bonds and mortgage-backed securities (MBS). The plan starts off slow, but will be removing as much as \$50 billion in liquidity from the bond market a year from now when its in full swing.

The European Central Bank also announced that it will reduce the scale of its bond buying program in January 2018. The program, which began in March 2015, had the ECB purchasing €60 billion (\$71 billion) worth of government bonds and other assets each month. Starting next year, the buys will be cut in half to €30 billion (\$35 billion) per month.

With the big central bank buyers tiptoeing away, interest rates will likely have to go up to entice other market participants to pick up the slack. A lot of the appreciation we have been enjoying in the stock market has been fueled by this as well. You have to wonder if increasing the balance sheet had such a positive impact on markets, wouldn't shrinking it have the opposite effect? How much of a market

## Binge Box

### Rick and Morty (Hulu)

Rick and Morty is original, smart, and very funny. Season 3 just finished up, and I am already going through withdrawals. The cartoon follows Rick, a genius scientist, and Morty, his aw-shucks grandson as they portal to different planets and dimensions. The duo pays homage to Doc Emmett Brown and Marty, but there is and will never be any time travel in the show. There are plenty of allusions to other sci-fi works in the show, as well.

Rick is the smartest man in the universe, but thinks that nothing matters and that makes him cruel, and a lot of fans think that's cool and use it as an excuse to be jerks. They seem to ignore that fact that Rick is miserable. The challenge is to enjoy *Rick and Morty* while not becoming a nihilistic prick with delusions of grandeur.

pullback do you think we'd need for the Fed to backpedal on this one? Hopefully they don't, and we get back to more reasonable asset valuations in 2018.

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Tactical Asset Allocation					
Asset Class	Heavy Under-weight	Under-weight	Neutral	Over-weight	Heavy Over-weight
<b>Cash</b>				●	
<b>Fixed Income</b>		●			
Core Domestic		●			
TIPS				●	
US High Yield	●				
Bank Loans				●	
Foreign Bonds			●		
<b>Equities</b>		●			
Large Cap		●			
Mid Cap		●			
Small Cap	●				
Developed Intl.		●			
Emerging			●		
<b>Alternatives</b>				●	
Real Estate		●			
Commodities					●
Hedging					●

## About EmeraldSpark

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