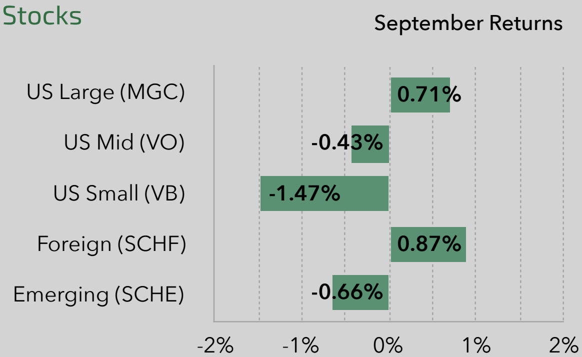
September 2018

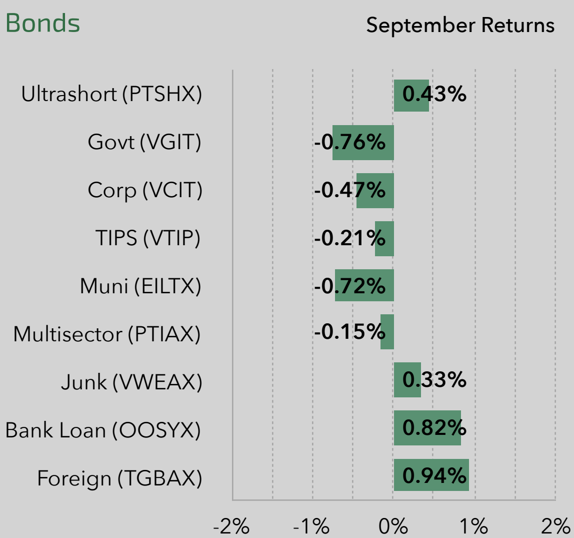
Economic Data

- The number of initial jobless claims is at its lowest since 1969 and the total number receiving unemployment benefits fell to 1,696,000 – the lowest level since 1973; unemployment rate fell to 3.7% in September
- Inflation (CPI) slowed to 2.7% y/y in August
- Existing home sales finally leveled off in August after declining for four straight months
- Retail sales were up 0.1% in August, the smallest gain in six months

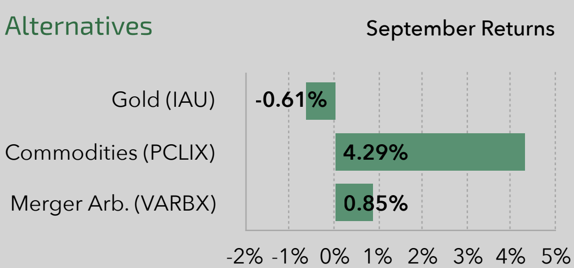
Stocks



Bonds



Alternatives



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.

Charitable Giving Under the New Tax Code

I was up in Houghton, MI a couple weekends ago to celebrate the 20th anniversary of the Applied Portfolio Management Program (APMP), a program I was a part of when I was a student at Michigan Tech and now serve on the board of. The program allows students to manage an investment portfolio of real money, currently valued at about $1.2 million. Students from each year were invited back for the reunion. I mean, the only other person from my year was my buddy Tim, who I had just seen only two days before the event, so I guess it wasn't much of a reunion for us. However, the event was well-attended by new students and old, along with my fellow board members, and it was a rewarding weekend. These sort of things aren't set up by the University strictly for your nostalgic benefit, however. Underneath everything alumni-related there is the ulterior motive of money. Donations, that is. From you.

While navigating the subtle and sometimes not-so-subtle inquiries as to the whereabouts of my checkbook, it got me thinking about charitable giving, and how the approach to it needs to be re-optimized under the recent change in tax laws. Because just like universities, we have our own ulterior motives. We might be happy to give, but we're even happier to do so when there are tax benefits.

Before I start talking about taxes anymore, let me remind you that I am not a CPA and am not qualified to give tax advice

With the increase in the standard deduction and the $10,000 limit on state and local tax (SALT) deductions, it's getting harder to meet the threshold to itemize deductions. This means the tax-advantages of charitable donations and mortgage interest are marginalized or eliminated for many taxpayers. Take, for example, a married couple making $275,000 per year in a high-tax state that maxes out their SALT, and that has $10,000 in mortgage interest per year with no other deductions. And let's say they also like to give $4,000 per year to charities. Under the old tax law they would itemize and those charitable deductions would save them $1,320 on their taxes (33% bracket). Under the new tax law their itemized deductions now equal the standard deduction of $24,000, so their altruism goes completely unrewarded by the IRS and those donations cost the full $4,000 (although they are in a much lower 24% bracket under the new law, so it's not all bad).

Fortunately, as there often is in the world of taxes, there is a creative solution. One that will allow this couple to continue to donate for years to come and receive a tax benefit – upfront no less. This is by opening up a donor-advised fund (DAF). The contribution is tax-deductible the first year, and the assets in the account grow tax-free. Then you just make your charitable donations from the account whenever the mood strikes you. That is to say, the money doesn't need to go to charity the same year as the tax benefit is realized.

If we assume a 4% net return on the DAF over the next 7 years, and $4,000 per year in giving, about $28,000 up front should cover your giving from this year through 2025 (after this the tax cuts are currently set to expire). Better yet, you can fund the account with the most heavily appreciated assets in your taxable account instead of cash, thus eliminating those unrealized capital gains, saving you in potential federal capital gains taxes down the road.

The three big players in the DAF space are Fidelity, Schwab, and Vanguard. They all charge 0.60% in account fees and have comparable investment options, but there are subtle advantages and disadvantages to each. Vanguard has arguably the best lineup of all-in-one type asset allocation funds, but is a little more restrictive with account minimums ($25,000) and contributions and donations ($500 minimums). Schwab arguably has the better lineup of individual funds, and is less restrictive on minimums ($5,000 to open, $500 for subsequent contributions, and $50 for gifts). Lastly, Fidelity has the least restrictive minimums ($5,000 to open, no minimum for subsequent contributions, and $50 for gifts), but the underlying fund fees tend to be a little higher. Gives and takes. Schwab might edge the other two out as the better choice, but you really can't go wrong with any of the three, in my opinion.

There are some disadvantages. First and foremost, if you give money away you now have less of it, and once you fund the DAF the money is no longer yours. So if you found yourself in a financial situation down the road where you wish you had access to this money, too bad – there are no takesy backsies. Secondly, while modest in my opinion, there are the fees. There is also the risk that markets go down and you will end up with less to give than if you kept it in cash. Overall, however, this can be a great strategy for those that want to give thoughtfully for years to come and have the means to front-load that giving now.

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Tactical Asset Allocation

Asset Class	Heavy Under-weight	Under-weight	Neutral	Over-weight	Heavy Over-weight
Fixed Income			●		
Ultrashort					●
US Govt.		●			
TIPS				●	
Multisector			●		
Bank Loans	●				
Foreign Bonds			●		
Equities	●				
Large Cap	●				
Mid Cap	●				
Small Cap	●				
Developed Intl.		●			
Emerging			●		
Alternatives					●
Commodities					●
Hedging					●

Binge Box

Atypical (Netflix)

Atypical is a sitcom that centers around Sam (Keir Gilchrist), an 18 year-old high school boy who is on the spectrum. The show tries to capture the struggles of coming of age with autism, and the impact it has on Sam's younger sister, Casey (Brigette Lundy-Paine), and his parents. Michael Rapaport plays his usual Michael Rapaport character, that in this case is Sam's dad. Sam's mother is played by Jennifer Jason Leigh, who, I don't know, is less than tolerable, in my opinion. But it's a funny, warm show, that punches you right in the feels every now and again. At the very least, you'll learn a lot about Sam's favorite obsession, the four species of Antarctic penguin. The fist two seasons are now available for streaming on Netflix

About EmeraldSpark

EmeraldSpark Investments, LLC is a Registered Investment Adviser based in Chicago, IL. We were founded by Ryan P. Layton, CFA in 2015 to provide personalized financial planning and fiduciary investment management services to select individuals. Our investment process blends the foundations of Modern Portfolio Theory with the latest research in the field of behavioral finance. We specialize in asset allocation and investment due diligence to help provide our clients with investment strategies personalized to match their specific goals and risk comfort zone.