

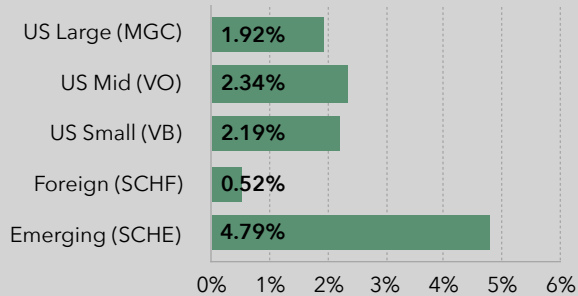
November 2018

Economic Data

- 155,000 jobs were added in the US in November, and the unemployment rate remained unchanged at 3.7%
- Inflation (CPI) was up 0.3% in October, and y/y increased two-tenths to 2.5%
- Existing home sales rose for the first time in six months in October climbing 1.4%
- Retail sales showed genuine life in October, up 0.8% following two months of meager one-tenth gains

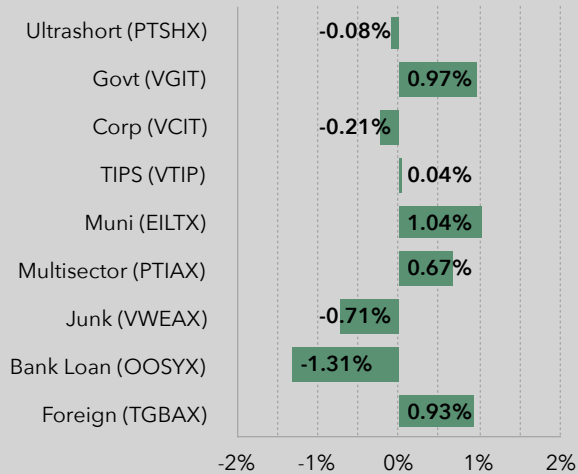
Stocks

November Returns



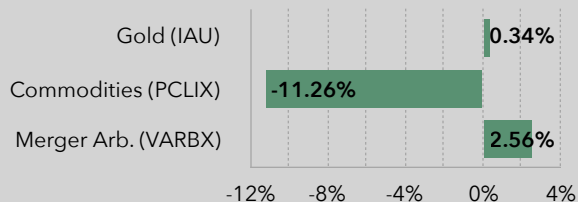
Bonds

November Returns



Alternatives

November 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.

Harvest Time

*** I'm about to talk about taxes, so before I go any further it is incumbent upon me to disclose that I am not a Certified Public Accountant (CPA), and as such I am not qualified to give tax advice. I will only try to give you an investment manager's perspective on the topic. You should always consult an qualified tax advisor regarding any questions related to taxes.***

When you have a diversified portfolio, even in good years when most investments are up, you may still have a few investments that are down. 2018 has so far been a ho-hum year for most investments, and a little less so for a handful of others, particularly international and emerging markets stocks. We are always on the look out for good tax-loss harvesting opportunities for clients with taxable accounts, but year-end tends to be a more focused time to review your capital gains situation. If you are not in a low tax bracket and you have some realized capital gains in your portfolio, we have been looking for unrealized losses in your taxable portfolio that you can realize to off-set those gains. The IRS also lets you deduct up to \$3,000 in realized losses every year against ordinary income, and any realized losses in excess of this carryover into subsequent tax years until they are used. So even if you don't have gains, realizing losses can be a good tax strategy.

There is a 30-day wash sale rule, though—we have to make sure the security wasn't bought within 30 days before selling it, and if we want to buy the security back we'll have to wait 31 days or you will forfeit the realized capital loss. To avoid missing out on market movements during this time, we usually swap the position into an ETF or another stock in the same industry that gives you somewhat similar exposure. For example, if we are taking a loss on a bank stock, we might consider buying a financial sector ETF to hold during the wash period until we can buy back the stock, if we want to.

Because I Was Inverted

The spread between two- and five-year Treasury yields dropped below zero last week. Markets have traditionally seen an inversion of the yield curve between the two- and ten-year as a warning sign of an impending recession, so this is certainly worth monitoring. On top of that, the market is now only pricing in about one rate hike in 2019, and is actually anticipating rate cuts in 2020. This corresponds well to our call in June that signs of a recession in late 2019 or 2020 were bubbling up.



Weaponized Brexit

The European Union's top court issued an advisory opinion saying that the U.K should be allowed to unilaterally reverse Brexit. The opinion has given hope and legs to those who are fighting to halt Brexit. Like many swords, however, this one has a second edge. Theresa May is trying to use this to her advantage by threatening a revocation if Brexit supporters don't fall in-line to support her proposed, yet unpopular exit deal with the EU. After the opinion, a U.K. spokesperson reiterated that "it remains a matter of firm Government policy that Article 50 will not be revoked."

Trade War

So much for a potential truce in the trade war with China...

"...I am a Tariff Man. When people or countries come in to raid the great wealth of our Nation, I want them to pay for the privilege of doing so. It will always be the best way to max out our economic power. We are right now taking in \$billions in Tariffs. MAKE AMERICA RICH AGAIN" -tweet from President Trump on December 4.

And so much for the brief recovery in the stock market, with the S&P 500 falling 3.24% that day and more yet in the days that followed.

Portfolio Positioning

Equity markets stabilized a bit in November after taking it on the chin in October, but as we mentioned above have recently resumed their slide. Emerging markets, our only equity position that isn't at an underweight, performed the best up 4.79%, and has been narrowing the gap of underperformance this year relative to domestic stocks.

Bond spreads—the extra yield you get over Treasury bonds to compensate you for credit risk—for the Bloomberg Barclays Aggregate US Corporate index are up to 1.40%, an increase of 0.55% since the lows in January when we eliminated corporate investment-grade corporate bonds from portfolios. Wider spreads mean lower prices, all else equal. Riskier high yield bonds, which were also eliminated in January, and bank loans, which were reduced or eliminated in May depending on your investment objective, are also feeling the pain as markets shy away from risk. Meanwhile, what remains of bond portfolios clocked in near flat or positive returns for the month, with safer government bonds showing particular strength.

In alternatives, gold was up slightly. However, broader commodities had an even worse month than October as oil continued its free fall, plummeting 22%. As OPEC and Russia worked on a deal to cut

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					●

production by 1.2 million barrels per day, the Canadians also did their part in helping to ease the heavy downward pressure on oil prices by ordering an 8.7% cut in production in Alberta. These cuts should help to offset most of the roughly 2 million barrel increase in production over the past year coming out of the United States. According to a note from Barclays, Texas alone has surpassed Iraq in production volume. And you know we're not going to cut.

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Binge Box

Bodyguard (Netflix)

Wonder where Robb Stark, the King in the North has been since the "Red Wedding"? Well, wonder no more, as he (Richard Madden) plays the lead role of David Budd in Netflix's new series *Bodyguard*. And no, don't worry, it's not a remake of the Kevin Costner/Whitney Houston film. Budd is a former war veteran now working as a Specialist Protection Officer assigned to protect the Home Secretary of Britain. It grabs you right from the beginning, and holds your attention with twists and speculation throughout, and, well...ends in a sort of rushed, weak, and hard to believe manner, but by then who cares? – it was a fun ride.

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.

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