

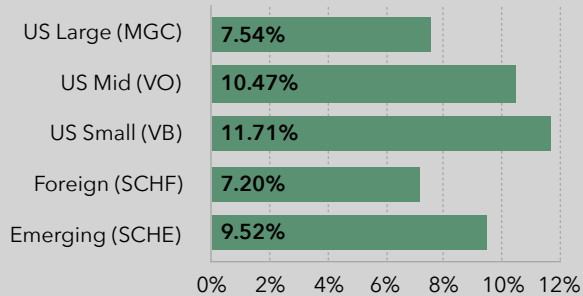
January 2019

Economic Data

- 304,000 jobs were added in January, making it 100 straight months of hiring gains; initial jobless claims actually fell below 200,000 for the first time since 1969 in January, before spiking the most since the 2017 hurricane season because of the partial government shutdown
- Y/y inflation (CPI) fell below 2.0% for the first time since August 2017, dropping to 1.9% in December
- Existing home sales crashed 6.4% in December, following two straight months of gains

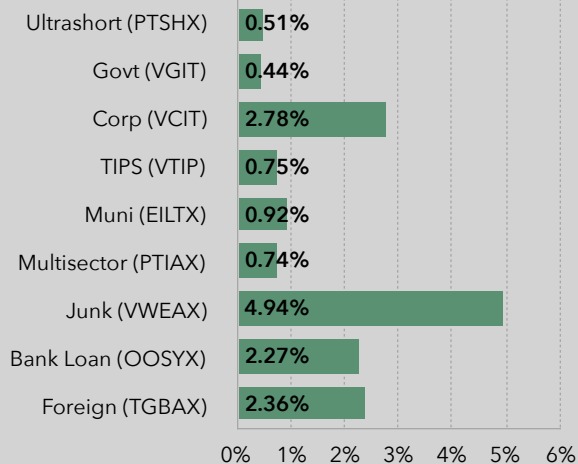
Stocks

January Returns



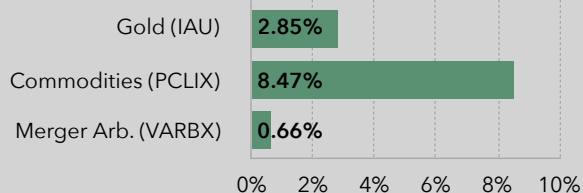
Bonds

January Returns



Alternatives

January 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.

Strategic Asset Allocation Review

Every year around this time we review our strategic asset allocation. This is industry speak for our long-term view on what assets we want to invest in, what we expect the returns for those assets to be, and how we expect those assets to behave relative to each other. Strategic asset allocation takes a long-term view—ten years in our case—so this exercise does not necessarily result in any changes from year-to-year, and if it does the changes should not typically be dramatic.

There were no changes to asset classes or their allocation targets for this year, however our expectations for their long-term returns have been revised. On the bond side, interest rates and therefore yields have increased over the past year. Current yields are the most reliable indicator of expected returns for bonds, so our expectations have likewise increased. On the equity side, earnings were up significantly thanks to corporate tax cuts, however prices were down. This has pushed dividend yields higher, made valuations more attractive, and increased our long-term expected returns. For example, our long-term expected return for large cap US stocks went from 5.25% last year to 7.00% this year. So that's good.

We have yet to make any tactical shifts in portfolios this year, choosing to be patient instead. The recent recovery in asset prices in January was incredible –just take a look to the left and you'll see everything was up. It was the best January for US stocks since 1989, but from our perspective this looks like a bear market rally and we believe the market has yet to form a bottom. We stand ready to increase our allocation to equities, but expect to see more downward pressure before we make that move.

The Dishes are Done, Man

The Fed decided to maintain the target range for the federal funds rate at 2.25% to 2.50%, and indicated they will be patient going forward with any adjustments to the target range. They also expressed a willingness to adjust the pace of their balance sheet normalization. The market based probability of any rate hikes in 2019 dropped to below 10% following the announcement. This leads us to believe that interest rates and therefore bonds will be more stable this year.

Back to the Salt Mines

After 35 days, the partial government shutdown after President Trump signed a three-week spending bill on January 25. This has the potential to move the next recession up if a long-term deal isn't reached by February 15 and the shutdown resumes. However, when it does end expect the GDP losses to be recouped as bureaucrats get their furlough pay and the Treasury starts paying its bills again.

Trade War

The U.S. and China are still far away from coming to agreement on a broader trade deal. "There's been a lot of anticipatory work done, but we're miles and miles from getting a resolution," Commerce Secretary Wilbur Ross told CNBC in an interview on January 24. The administration has put a self-imposed deadline of March 1 on the negotiations, and is prepared to raise

tariffs to 25% on \$200 billion in Chinese products if a deal that includes protections for U,S, intellectual property is not reached.

God Save the Queen

A hard Brexit is not likely, but it is the course we are on. It's the law, after all, and so all that is necessary is continued dysfunctional behavior at the EU and in the UK government. Seems possible to me. And how well could negotiations really be going if they have plans in place to evacuate Queen Elizabeth in the event of civil unrest following a no-deal Brexit? Unless a deal is reached, which so far seems unlikely, or an extension is worked out, which would just kick the can, March 29 is the date.

Who is President?

Well, usually an election is held, and whomever wins the election is the president. In Venezuela, that would be Hugo Chávez's hand-picked successor, Nicolas Maduro. But really, it's whomever everybody believes is the president. And by that measure, it's not that clear that he is.

Venezuela's opposition leader, 35-year old Juan Guaidó, declared himself interim president on January 23 under constitutional provisions, claiming May 2018 elections, in which Nicolas Maduro won a second term with a totally believable 68% of the vote, were a fraud. The United States quickly recognized Guaidó as the legitimate head of state, and Canada, Australia, and most of Latin America followed suit. Now about 20 European Union nations including the UK (which holds a lot of Venezuela's gold), Germany, France, and Spain (but not Italy) have also backed Guaidó after Maduro failed to satisfy their ultimatum for a new election.

Nicolas Maduro is not without his supporters, though, which include Russia, China, Turkey, and Syria—not exactly bastions of free and fair elections—as well as more left-leaning Latin American countries Cuba, Nicaragua, and Bolivia. Maduro also maintains the loyalty of all but one of his roughly 2,000 military generals, according to Time—which is an absurd amount for only 100,000 active members, especially when you consider the United States military has a statutory maximum of only 653 generals for its 1.3 million active-duty troops. But if you promoted me, an undeserving idiot, to general, and paid me a general's wage, gave me vast economic and political influence, and looked the other way while I engaged in money laundering, fraud, and illegal mining, I'd probably have to stay loyal, too. But does that make me the type of guy that would actually take a bullet for you when amnesty is on the table? Let's hope not and this whole transition goes down as peacefully as possible.

Binge Box

The Detour (Hulu)

Wife and husband team Samantha Bee and Jason Jones co-write and produce this TBS comedy about a family of four's road trip vacation. Jones also stars in the show as Nate Parker, with the gorgeous and funny Natalie Zea playing his wife. The show kind of starts out with a similar vibe to the beloved National Lampoon's Vacation series, but soon builds its own comedic identity as its story develops. The show offers a wide range of laughter, from sophisticated, high-brow jokes, all the way down to slapstick physical comedy. I'm not normally a fan of physical comedy, but Jason Jones executes so well in that department I often found myself vocally expressing my approval.

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					●

So far, concerns about tighter oil supplies caused by U.S. sanctions against Venezuela's state-owned oil company have been mostly offset by concerns about a slowing global economy, as oil prices haven't moved much since they were announced on January 28. Long-term, U.S.-friendly regime change in the country should result in increased supply, which has suffered under the socialist regime. Since Chávez took office in 1999, production has fallen from about 3.5 million barrels per day down to 1.5 million in 2018.

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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 clients. 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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