

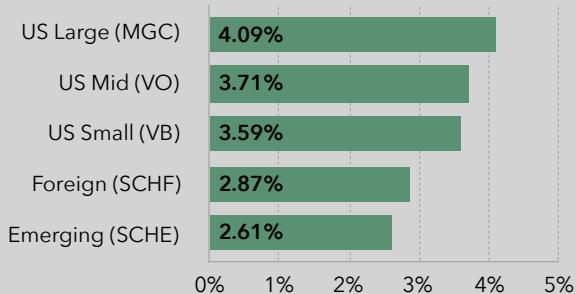
April 2019

Economic Data

- US payrolls surged 263,000 in April, with gains across nearly all sectors; the unemployment rate fell to a more than 49-year low of 3.6%
- Retail sales were up 1.6% in March, the largest increase in a year-and-a-half
- Y/y inflation (CPI) rose to 1.9% in March; the highest rate in 14 months, but still relatively tame
- Existing home sales fell back to earth in March, dropping 4.9% after a huge 11.8% jump in February

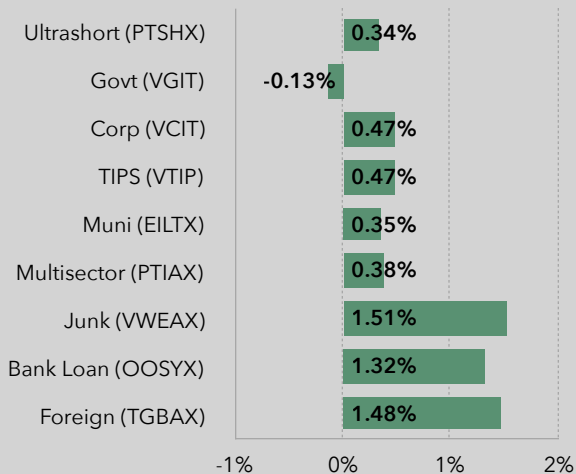
Stocks

April Returns



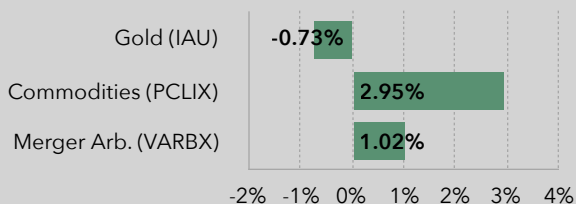
Bonds

April Returns



Alternatives

April 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.

Punxsutawney May

Theresa May saw her shadow on April 10, which means six more months of Brexit. At least I think that's how it works. The UK is now set to leave on October 31, 2019, following a second extension from the EU. For real this time, guys. Unless a deal is reached before then, in which case they will leave on the first day of the following month. Or they could cancel Brexit altogether, in which case the world would deserve a heartfelt apology for the three years of wasted energy and attention.

I recently returned from a trip to Ecuador, where I had the pleasure of meeting and conversing with a number of Brits and Europeans. I would occasionally steer the topic towards Brexit to get their opinions on the matter. They almost always shared two things in common, the first of which was fatigue. "All they talk about on the news is Brexit and how Kim Kardashian wants to be a lawyer. Nobody back home knows anything about things that really matter, like the crisis in Venezuela," lamented Josie, a young British woman.

The second thing is nobody really understands it. I asked James, an Irish gentleman, what he thought about the Irish backstop. To which he replied, "the what?" Fair enough. I'm not even sure what it is.

So if they are tired of it and don't care much about it and don't really understand it, I think it's fair that we can do the same. So I will try my best not to spill any more ink about the topic until something real actually happens.

Slow Ride

I've had my eye on a new bicycle for the past eight months or so, following a trip to Boise, ID in September where it was my primary mode of transportation. Not a new road bike, mind you; I'm happy with my Gary Fisher. Nor a new mountain bike, although the foothills around Boise are certainly a place where you'd appreciate one of those. No, what I wanted had fewer speeds. Far fewer. One very slow speed, to be exact. A beach cruiser. Ahhh, there is nothing quite like the upright comfort and dignified pace of a beach cruiser. After much research I found the one I wanted—a Chatham—and last week I pulled the trigger. And my timing would prove to be impeccable.

You see, China has effectively cornered the market on bicycles—a \$6 billion industry in the US—with 94 percent of all bikes we import coming from China, according to data from the US Department of Commerce. And the bicycle industry has found itself caught in the middle of the ongoing trade war between the US and China. Last year, the administration increased tariffs by an additional 10 percent on bicycles and \$200 billion in other goods from China. So far, this has had only a minor impact on prices. In fact, the "sports vehicles including bicycles" component of CPI is only up 3.0% over the past year through March, according to the Bureau of Labor Statistics. That's not too much higher than the 1.9% the CPI as a whole has gone up.

But things are about to heat up even more, following a Friday cable from Beijing that backtracked on many of the core agreements we had been working towards, including protection of US intellectual property and forced technology transfers. The "productive" talks with China were apparently not productive at all, and President Trump took to his less-than-stately version of

the fireside chat–Twitter–to poke back at the panda:

“For 10 months, China has been paying Tariffs to the USA of 25% on 50 Billion Dollars of High Tech, and 10% on 200 Billion Dollars of other goods. These payments are partially responsible for our great economic results. The 10% will go up to 25% on Friday. 325 Billions Dollars....

“...of additional goods sent to us by China remain untaxed, but will be shortly, at a rate of 25%. The Tariffs paid to the USA have had little impact on product cost, mostly borne by China. The Trade Deal with China continues, but too slowly, as they attempt to renegotiate. No!” –@realDonaldTrump

Actually, tariffs are paid by importers, which are mostly US companies. They can either bear the cost, demand lower prices from China, move production to or look for alternative suppliers in other countries, or pass the expense on to their customers. It’s almost certainly a combination of all of those things, so usually everybody loses.

According to Reuters, Kent International, one of the largest producers of bikes in the US, is pursuing a strategy to get around the tariffs. They are moving the production of frames to Cambodia, while still sourcing much of the other parts from China. As long as 35 percent of their costs for parts and labor are derived from Cambodia, the bikes will avoid tariffs. So the US loses, China loses, and Cambodia wins?

This will take time, however, and with those tariffs set to go to 25 percent Friday, I think the bicycle industry—which has very thin margins –will be forced to raise prices significantly. So if like me you’ve had your eye on a new set of wheels, the time to buy is 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

After Life (Netflix)

Ricky Gervais is a divisive character. I like him most of the time, though, and his new series on Netflix, *After Life*, is the kind of classic Gervais I can get behind. He wrote and directed the dark comedy, and also stars as its main character, Tony, a snarky misanthrope whose rude, yet sharp comments and inappropriate behavior get a pass from coworkers and friends because he is suffering from the death of his beloved wife of 25 years. It’s admittedly a bit dark and nihilistic in the beginning, but slowly you see the good in him and that he’s not completely dead inside. There is a happy ending after all the dark humor, I swear.

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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