

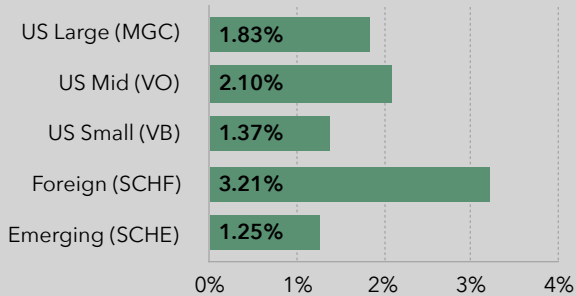
September 2019

Economic Data

- US payrolls were below expectations again with only 136,000 new jobs added in September; unemployment fell to a near 50-year low of 3.5%, however
- Retail sales were up 0.4% in August
- Y/y inflation (CPI) edged down to 1.7% in August, pulled down by a 4.4% drop in energy prices
- Existing-home sales were rose again in August, up 1.3%
- The ISM U.S. manufacturing Purchasing Manager's Index came in at 47.8 in September, the lowest since June 2009

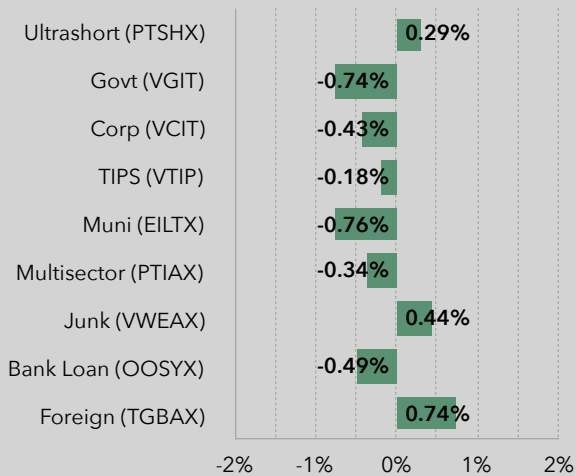
Stocks

September Returns



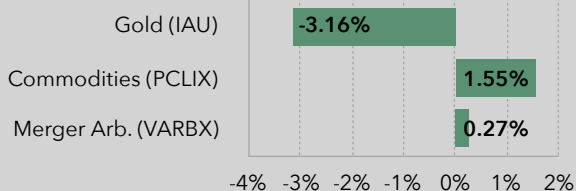
Bonds

September Returns



Alternatives

September 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.

WeNoWork

The co-working company WeWork (or the We Company as they like to be called now that their corporate mission has grown beyond on-demand office space with beer on tap to “elevating the world’s consciousness,” whatever that means) was looking to cash in with a splashy IPO last month. Unfortunately for them, they got a lot of pushback from the market over the valuation of the company. Looking at the prospectus, over the past five years the company’s expenses have been more or less twice its revenues. That’s not a sustainable formula, of course. At one point, WeWork was valued at \$47 billion, which is roughly half the value of all publicly traded office REITs, and the investment banks were even pitching it as being worth more than \$60 billion. That’s pretty impressive for a company that doesn’t really own all that much real estate. Mostly, they just take out long-term leases in buildings, convert them into co-working spaces, and then collect short-term rent from its members. Oh, by the way, some of the buildings they rent also happened to be owned by the company’s founder and CEO, Adam Neumann, which he bought with loans against his equity stake. This does not, of course, look great from a conflict of interest perspective. So after mounting pressure, Adam Neumann stepped down on September 24, and a week after that they pulled the IPO altogether. Generally speaking, I’m a fan of co-working spaces, but this does kind of have a top-of-the-unicorn-bubble feel to it.

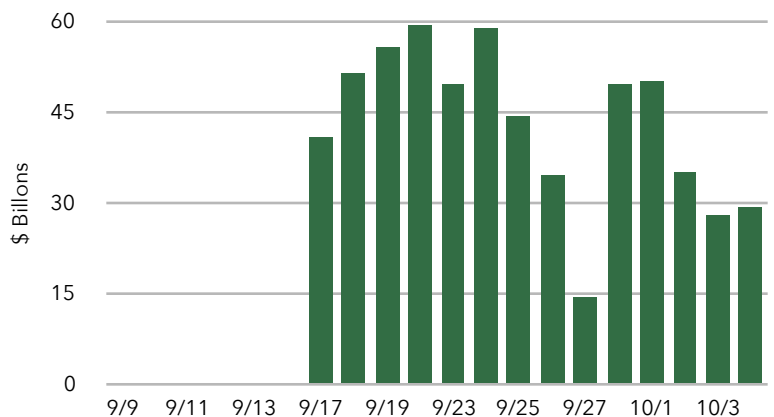
RIP: MoviePass

Speaking of terrible business models, do you guys remember MoviePass? I first wrote about the “Netflix for movie theaters” in December of 2017. It offered customers like me the ability to see one movie per day in any theater for only \$9.95 per month. I didn’t think the company would be able to survive its first year, because you can’t sell something for less than it cost you and hope to make it up on volume. But they proved me wrong by lasting two. MoviePass officially ceased operating the service on September 15.

Repo Markets

How do I make repo markets interesting? ...I don’t think I can, so I’ll keep it short. The repo market is essentially an overnight funding market. Banks who

Federal Reserve Overnight Repurchase Agreements



Source: Federal Reserve Bank of New York

need cash overnight to meet their reserve requirements pledge US Treasury bonds as collateral, and someone with excess cash lends it to them. The next day, the borrower repurchases (hence the term “repo”) the Treasury bonds at a discount normally within the Federal Reserve’s target range, which is currently between 1.75 and 2.00% on an annualized basis. This typically runs very smoothly, but a few weeks ago funding shortages caused interest rates to spike as high as 10%. The Fed was forced to infuse cash into the repo market for the first time since the Great Financial Crisis more than a decade ago. It could be nothing, but the fact that the Fed has had to step in every day since with over \$600 billion and counting makes this a short-term lending squeeze that is hard to ignore.

With a weaker-than-expected payroll number and the ISM Purchasing Manager’s Index showing contraction in manufacturing, another Fed rate cut at the end of this month seems likely, as well.

Saudi Oil Attack

The world’s largest petroleum-processing facility was attacked by drones and cruise missiles on September 14. It was the largest disruption in oil supply in decades, taking 5.7mm barrels per day offline—more than 5% of the global supply. This caused a 15% spike in the price of oil when markets opened up again after the weekend, but that and more has since been given up and oil is actually lower than it was right before the attack as Saudi Aramco was able to restore production to pre-attack levels in a mere eleven days, according to a report from Reuters. Both Saudi Arabia and US officials claim Iran was responsible, but Iran’s like, “nah, not us.” So...what, everything’s cool? The oil markets are acting as if two of the biggest military powers in the Middle East aren’t at any risk of going to blows. I certainly hope it doesn’t come to that, but we’ll hold our commodity position a bit longer just in case.

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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

The Boys (Amazon Prime)

Did you know there have been 23 films released so far in the Marvel Cinematic Universe? That’s not including all the Marvel films outside of the MCU, or the Netflix series, or the DC films. The point is, there is a lot of super hero content out there, and maybe I’m just speaking for myself, but I’m kind of over it. The whole idea that someone can have these powers and not abuse them is a bit far-fetched, and *The Boys* explores that. The Boys aren’t super at all, but they do know the truth about how much that power has corrupted super heroes. And they hunt them down and kill them. The violence is a bit gratuitous at times, but if you can look past that it’s a pretty enjoyable show and just what this era of peak super hero needs.

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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