

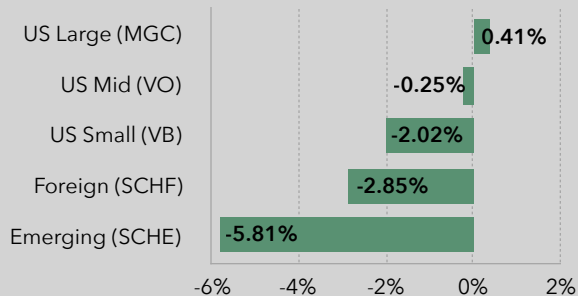
## January 2019

### Economic Data

- US payrolls surprised to the upside with 225,000 jobs added; the unemployment rate edged up one-tenth to 3.6%
- Retail sales were up 0.3% in December
- Y/y inflation (CPI) rose two-tenths to 2.3% in December
- Existing home sales were up 3.6% in December, although sales declined in the Midwest
- The Conference Board Leading Economic Index (LEI) turned negative on a year-over-year basis for the first time this cycle, however this appears to be transient

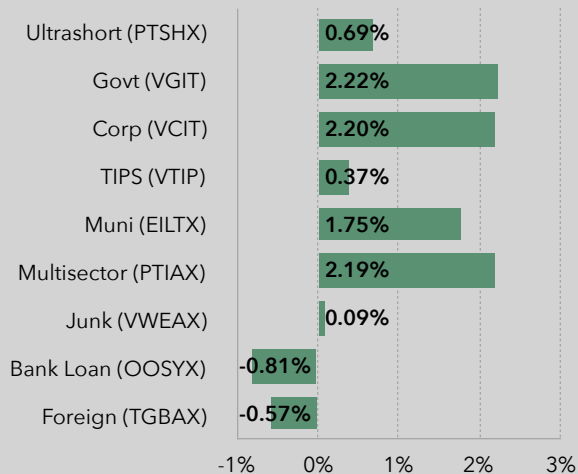
### Stocks

January Returns



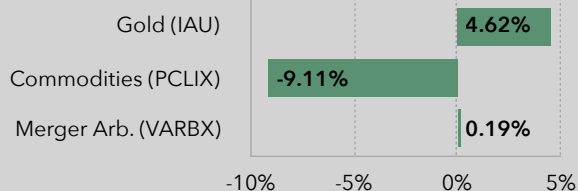
### Bonds

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.

### Adventures in Amateur Epidemiology

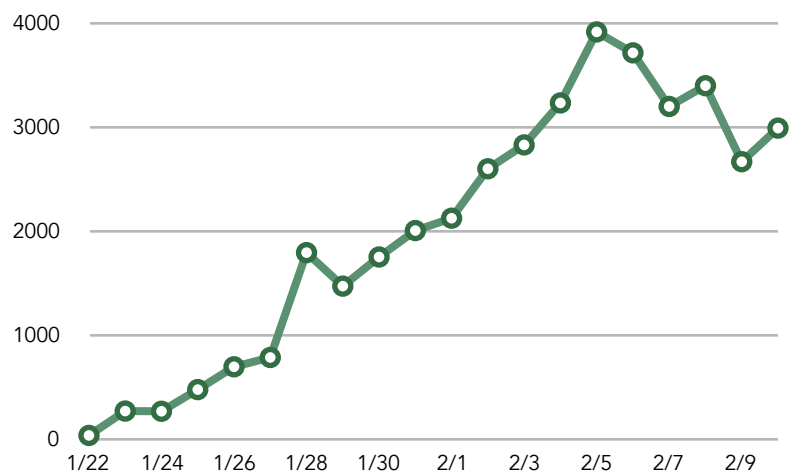
I used to spend a lot of time playing cell phone games, but after a while I grew uneasy with my relationship with them. It was an unproductive use of my time, and a weird kind of almost addiction that gave me anxiety-inducing Candy Crush dreams. I was also turning into Paul Rudd's character from the film *This is 40*, finding myself logging an unnecessarily long amount of time sitting in the bathroom. So I quit playing cell phone games altogether about two years ago, and I have no desire to download another again.

However, the recent outbreak of Novel Coronavirus (2019-nCoV) has reminded me of one of the better games I played: *Plague Inc.* The strategy game follows an epidemic model with a realistic set of variables to simulate the spread of a deadly plague. The goal of the game is not to fight the spread of the virus, however. You actually win by wiping out the entire human population. But it does give you some idea of how these things can spread and mutate, and, well... that's about all the experience I have with epidemiology. Therefore I am definitely not qualified to speculate about 2019-nCoV. But I'm going to do it anyway.

So far, 910 deaths have been linked to 2019-nCoV, already exceeding the number of deaths caused by SARS back in 2003 (774). The *Journal of New England Medicine* estimated on January 29 the virus had an R0 value of 2.2, meaning that each infected person would, on average, infect another 2.2 people. In general, viruses will continue to spread until public health measures effectively reduce the R0 to below 1. While the number of cases is still growing, the rate of growth appears to have peaked on February 5. It's still too early to tell whether this is a true turning point in the containment battle, or just a speed bump in the virus's spread, but it's something I will continue to monitor.

Impact on GDP in China will be severe but ephemeral if the virus is contained. Coronavirus fears caused the Shanghai Composite Index to plunge nearly 8% on the first day of trading after the extended Lunar New Year holiday, but it

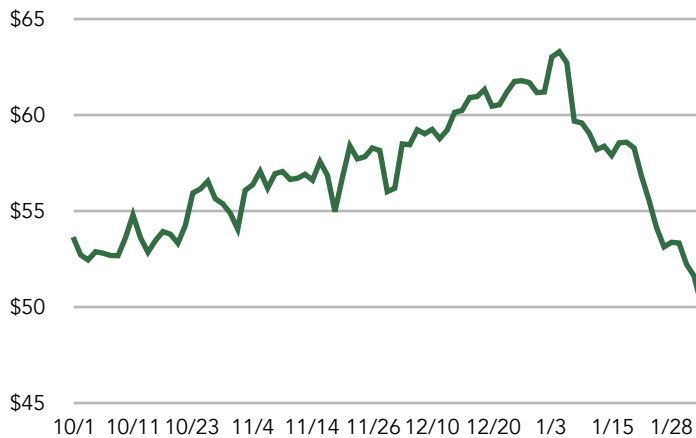
Daily New Cases of 2019-nCoV



Source: World Health Organization

has since stabilized. Our broader emerging markets position—of which China is the largest component—is only about 4.5% off its highs. US stocks, on the other hand, are seemingly unfazed by it all, as they continue to hit new highs. The only asset class that seems to be getting really hurt by the scare is commodities. Our broad commodities position, which we fortunately cut in half back in December, is down about 11% from its highs last month as oil prices have crashed more than 20%.

Crude Oil Prices: WTI



Source: U.S. Energy Information Administration

### Brexit Through the Gift Shop

The UK formally left the European Union on January 31, and the world didn't end. That's because not much has really changed. I hear the passports will be reverting back from burgundy to their iconic blue color, so there's that. The real meat of it will be sorted out during the current 11-month transition period, during which little will change regarding trade as they work towards a long-term deal.

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

### Binge Box

#### The Mandalorian (Disney+)

As of February 3, the newly launched streaming service Disney+ has 28.6 million subscribers. That's already almost half as many as Netflix's 61 million US subscribers, and it has only been around for a couple months. So you probably have it already. And if you have kids, you definitely have it. But it's not just for them. The service launched with an original Star Wars series that follows a Mandalorian bounty hunter (Pedro Pascal) as he travels the far reaches of the galaxy. I mean, it's Star Wars. It's space wizards. It's got a baby Yoda. So you'll probably watch it just because. But it's actually just a good show on its own, and creator Jon Favreau deserves credit for that.

## 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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