

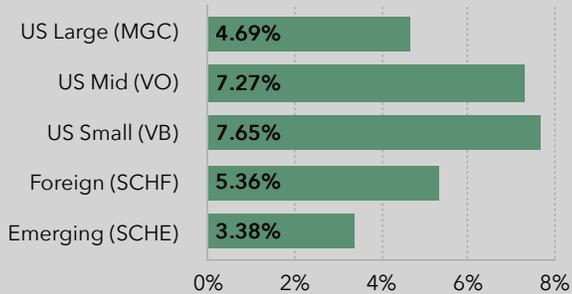
May 2020

Economic Data

- US payrolls surprised to the upside, adding 2.509 million jobs in May; the unemployment rate fell from 14.7% to 13.3%*
- Retail sales fell a record 16.4% in April; furniture down 58.7%, electronics down 60.6%, and clothing down 78.8%
- Y/y inflation (CPI) fell to just 0.3% in April; gas prices are down 32.0% while food at home is up 4.1%
- Existing home sales fell 17.8%
- The Conference Board LEI declined a further 4.4% in April

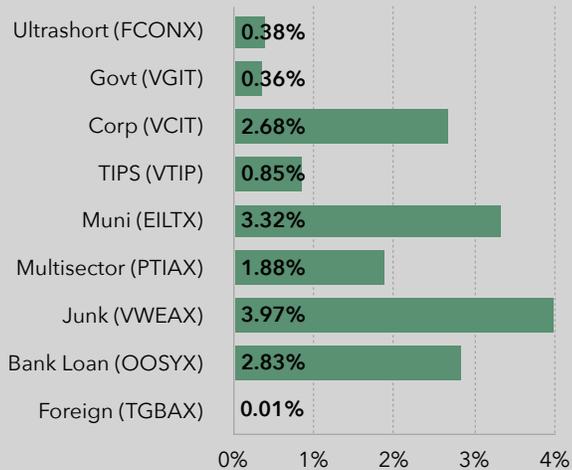
Stocks

May Returns



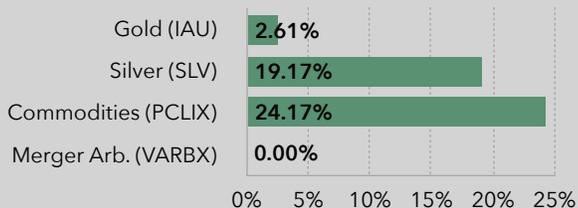
Bonds

May Returns



Alternatives

May 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.

Hertz, Don't It?

There is just too much going on in the world to cover it all in this brief newsletter, and that's really not the point of it anyway. Instead I think I'll focus on one little investment thing that caught my eye.

On May 22, Hertz, the company that has been renting cars for over a century, filed for bankruptcy. This makes sense given the sudden and devastating impact of Covid-19 on travel demand. The stock fell to \$0.41 when the market opened the following Monday, an 86% drop from its Friday close before the announcement. This also makes sense. When a company declares bankruptcy it typically means it can't afford to pay its creditors. The common equity holders, who are last in line for payment, typically get nothing in this situation. And Hertz has a lot of debt, so this is likely the case with it.

Then things got weird. The number of users on Robinhood holding the stock went from 44,249 on May 26 to 125,888 as of yesterday, a 184% increase. Moreover, there were just over one thousand in the months before the pandemic. This baffling buying frenzy has pushed the stock up to \$5.53 as of yesterday's close, a 1,249% gain since the May 26 open and almost double what it was worth before the bankruptcy announcement.

Number of Robinhood Users Holding Hertz (HTZ)



Source: Robintrack

You have to really think about it for this to make any sense. So here goes nothing. People are bored at home, and they've got some stimulus money, and Robinhood has gamified trading, and trading in worthless securities is volatile and therefore, presumably, exciting. It's some sort of weird game of hot potato, seeing if the r/wallstreetbets subreddit can lure greater fools into the madness. But someone will be left holding the bag when the music stops, and right now it looks like 125,888 Robinhood users will be among them.

I think this will become one of the popular anecdotes from the post-Covid-19 mania, referenced a similar way, in hindsight, as Webvan or Pets.com when they became the poster children for hubris and retail day-trading folly during the dot-com boom.

*Employment Data

Some people were quick to cheer the surprise drop in unemployment in May's report. However, the Bureau of Labor Statistics admitted that a "misclassification error" meant the unemployment rate might be as much as 3 percentage points higher than reported. The point is unemployment numbers are a bit murky right now.

In other economic news, the National Bureau of Economic Research said Monday that the COVID-19 crisis has officially launched the U.S. economy into a recession, determining that economic activity had peaked in February. Nothing we didn't know already. This ends the longest continuous economic expansion—128 months—in US history.

Silver Bullet

I mentioned considering the purchase of silver in last month's newsletter, and we did in fact make that move. The massive amount of fiscal and monetary stimulus we have seen in response to the Covid-19 pandemic is producing a huge amount of monetary inflation, and precious metals tend to be a good hedge against that. Demand destruction at the onset of stay-at-home orders kept broad commodity prices under pressure, masking the early effects of monetary inflation. However, I believe the CPI basket isn't an accurate reflection of spending right now. Car rentals and purchases, gasoline, hotels, airfares, and apparel are all seeing significant price declines, but things we are actually buying, such as grocery store items, are seeing significant price gains. I don't believe wages and economic growth will keep up, though, and wouldn't be surprised if we see a period of 70's style stagflation.

The iShares Silver (SLV) position was funded with a reduction in our developed international and emerging markets allocations, moving these from neutral to a slight underweight. This reflects our broad view that equity markets are not properly pricing in the long-term effects of the economic shutdown, and are over-estimating how quickly we will recover.

Ryan P. Layton, CFA
 p: 612-810-2230
 e: ryan@emeraldspark.com

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

Locke & Key (Netflix)

I don't really care for horror movies. Or "scary" movies set inside a haunted house. This isn't really either of those. Locke & Key is more fantasy than horror. The show centers around the Locke family, who move to their family's ancestral home in Massachusetts following the gruesome murder of the family's patriarch. Within the house lie a number of hidden keys that unlock magical powers, such as the ability to teleport anywhere in the world, or the ability to physically enter one's own mind. Critics lament the show's decision to entertain at the expense of exploring deeper themes of memory and grief after the loss of a loved one. But entertaining it is, and wild, and at times delightful. So I found it worthy of bingeing.

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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