

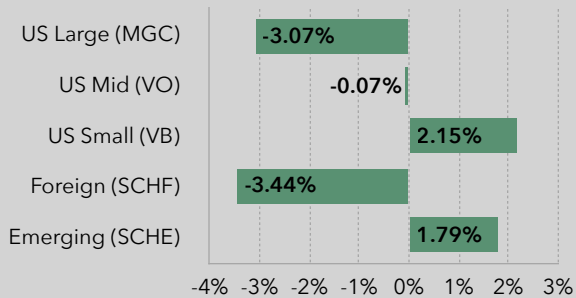
## October 2020

### Economic Data

- US payroll growth slowed a wee bit to 638,000 in October and the unemployment rate fell one point to 6.9%, according to the BLS
- Retail sales were up 1.9% for the month of September with home & garden sales up 19.1%
- Y/y inflation (CPI) edged up to 1.4% in September
- Existing home sales rose for the fourth month in a row in September, up 9.4%

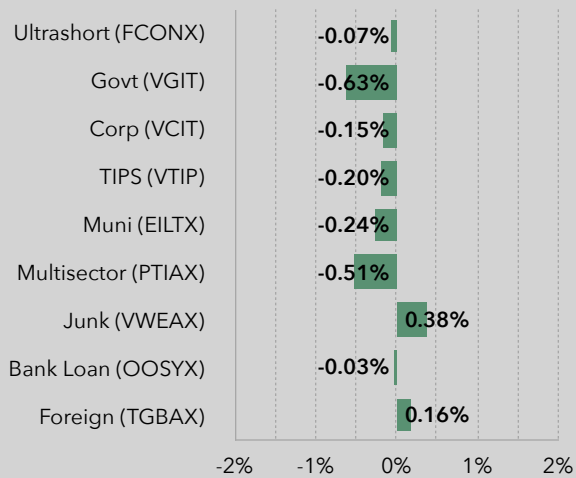
### Stocks

#### October Returns



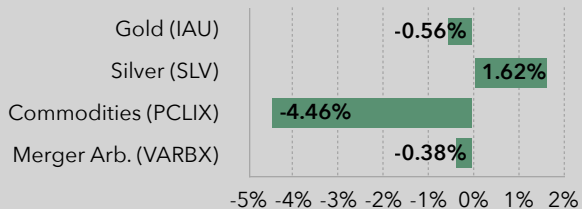
### Bonds

#### October Returns



### Alternatives

#### October 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.

### I Have Here in My Hand the Cure for COVID

In one of *Chappelle's Show's* "real movie" sketches, Dave Chappelle plays a parody of Morgan Freeman's role as the US president in the film *Deep Impact*. With Earth's destruction imminent, he takes the podium in a press conference and begins to reveal a number of secrets the government has been hiding from the public. The first of which, is the cure for AIDS. He pulls out a vial from his suit pocket, tosses it to a member of the press corp, and says, "Have a great weekend."



For some reason, Pfizer's press release on Monday morning sort of reminded me of that. Following Joe Biden's victory speech over the weekend, Pfizer announced a study of some 44,000 people showed more than 90% effectiveness for their vaccine against COVID-19.

The stock market went bananas. Travel-related stocks such as Booking Holdings (BKNG) and Sabre (SABR) shot up 18.8% and 40.1%, respectively. Energy stocks like Cenovus (CVE) and Valero (VLO) were up 20.4% and 31.2%, and oil itself was up 8.5%. Meanwhile, Netflix (NFLX) and Zoom Technologies (ZM)— companies that have benefited greatly from the pandemic—were down 8.6% and 17.4%, respectively.

There are still many unanswered questions about the vaccine, and it will take a fair amount of time to manufacture and distribute it. The risk in the meantime is that with a vaccine seemingly on its way, will we see a spike in infections as jubilation overtakes caution?

### I'm an Electoral Mathlete, not an Athlete

Well, that election went pretty much as we predicted in last month's newsletter, proving yet again that my casual observations are more accurate than the polling data analysis of FiveThirtyEight's Nate Silver. "If they're coming after FiveThirtyEight, then the answer is f--- you, we did a good job!" said Nate Silver. Sure you did, Nate.

This one was a nail-biter, with a lot of state results falling outside the margin of error of the polls. I went to bed thinking Trump might actually have the upset, but woke up to find a dramatic overnight reversal of fortune for Biden.

I made election night even more interesting by drinking beer and betting on the ponies. PredictIt is a project of Victoria University of Wellington, established to facilitate research into the way markets forecast events. Here, you can buy contracts on the outcome of various global events, and the data is used for important academic studies. Translation: legalized gambling on elections. But it's okay, because science.

I made a 42% return on a bet that Biden would take Nebraska's 2nd Congressional electoral vote, and 74% wagering that Trump would win Maine's 2nd. I also made easy money on Trump taking Iowa and Ohio, and Biden taking New Mexico and Minnesota.

A number of my other wagers have yet to be called, however, as the election in many states is—surprise, surprise—being contested. Was there voter fraud? Absolutely, and you'd be naive to think otherwise. As Rod Blagojevich, the former governor of Illinois put it, election fraud is a 'Time-Honored Tradition'. And he knows a thing or two about corruption. The real questions that need to be answered are: was it widespread enough to alter the outcome, and can you prove it in court before it's too late?

It's a divisive topic, though, and this is a financial publication, not a political one. So instead of debating it, let's go back to PredictIt. If you think there is no evidence of election fraud in Pennsylvania, purchase a contract for \$0.87 and earn 15% or so. Think the Georgia recount won't change a thing? That contract can be had for \$0.87 as well at the time of this writing. It should seem like easy money.

If, however, you think lead attorney and star of *Borat Subsequent Moviefilm*, Rudy Giuliani, has a legitimate case that state election laws were violated in Pennsylvania, or a recount in Georgia moves the razor-thin margin in Trump's favor instead of Biden's, take the other side of the contracts for a potential 600%+ payday. You can also still make wagers on the Georgia run-off coming in January for both of the Senate seats that are up for election.

Wait, did I just promote gambling in an investment newsletter? No, no, I can't do that; THIS IS NOT A RECOMMENDATION. This is just for entertainment, like those fantasy football leagues I'm in with some of you. Let's instead think of it as a more interactive way to donate money to academic research.

## What Does It Mean for Your Investments?

It looks as if the republicans will maintain a majority in the Senate, pending the Georgia run-offs. That takes the risk of a corporate income tax rate hike that would hurt US stocks off the table for at least two

### Binge Box

#### The Queen's Gambit (Netflix)

This is the best show I've seen in months. A historical drama about chess? Yes, please. *The Queen's Gambit* is a Netflix series based on the eponymous 1983 fictional novel by Walter Tevis. Anya Taylor-Joy shines as the protagonist and prodigy, Beth, from age 15 on, and she is surrounded by an ensemble cast. The story begins with her losing her mother at a young age. She is sent to an orphanage, where she develops a Librium addiction and is introduced to the game of chess by the janitor (Bill Camp), albeit begrudgingly on his part. What follows is a binge-worthy ascension of her rise through the chess world and her battle with trauma and addiction.

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					●

years. However, now that the election is over, I think it is unlikely the Senate will pass any fiscal stimulus package as generous as the \$1.8 trillion Trump was pushing or the \$3.4 trillion Nancy Pelosi was dreaming of. I expect if there is any further stimulus at all, it will be numbered with a 'B', not a 'T'. So all that "blue wave" hope for increased stimulus spending buoying the stock market further needs to be tempered.

Still, if stimulus does come expect a weaker dollar. This and a softer touch in trade negotiations—particularly with China—under a Biden presidency should bode relatively well for emerging markets stocks. A weaker dollar should also be good for gold and silver.

Without a clean sweep by the democrats, though, I think municipal bonds are a little more vulnerable. Dems are keen on sending money to state and local governments, while the republicans are opposed to the idea seeing it as nothing more than a bailout for blue states that were financially mismanaged long before COVID-19. I'm not ringing the warning bell yet, but some municipalities \*cough\* Chicago \*cough\* will be in real financial trouble without help from the federal government.

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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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