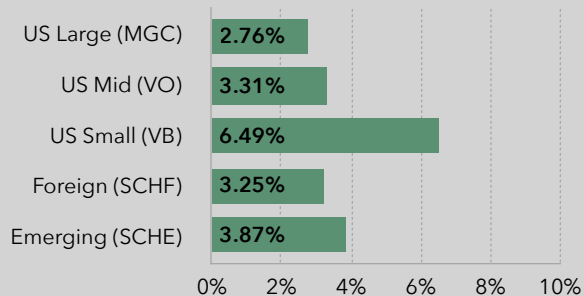## December 2020

Economic Data

- Payrolls in the US declined by 140,000 in December with the leisure and hospitality component hit hardest; the unemployment rate remains at 6.7%
- Retail sales were down 1.1% for the month of November with particular weakness in clothing and department stores
- Y/y inflation (CPI) remained at 1.2% in November
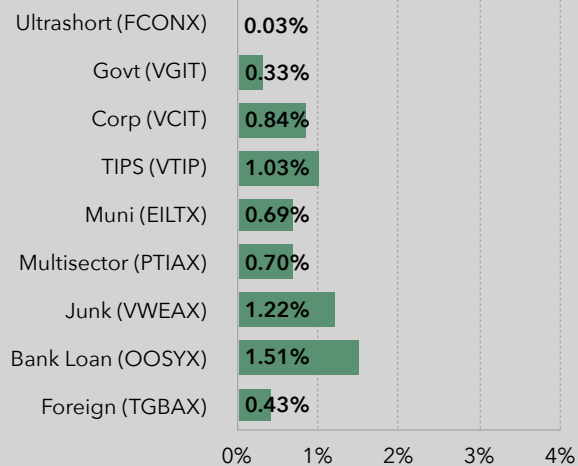- Existing home sales fell 2.5% in November, snapping a five-month streak of gains
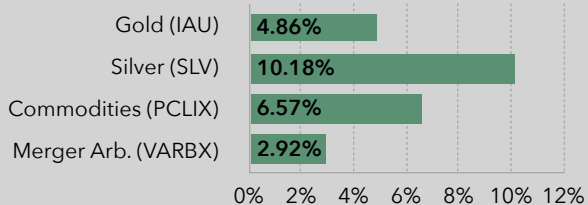
Stocks

December Returns

US Large (MGC)	2.76%
US Mid (VO)	3.31%
US Small (VB)	6.49%
Foreign (SCHF)	3.25%
Emerging (SCHE)	3.87%

Bonds

December Returns

Ultrashort (FCONX)	0.03%
Govt (VGIT)	0.33%
Corp (VCIT)	0.84%
TIPS (VTIP)	1.03%
Muni (EILTX)	0.69%
Multisector (PTIAX)	0.70%
Junk (VWEAX)	1.22%
Bank Loan (OOSYX)	1.51%
Foreign (TGBAX)	0.43%

Alternatives

December Returns

Gold (IAU)	4.86%
Silver (SLV)	10.18%
Commodities (PCLIX)	6.57%
Merger Arb. (VARBX)	2.92%

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.
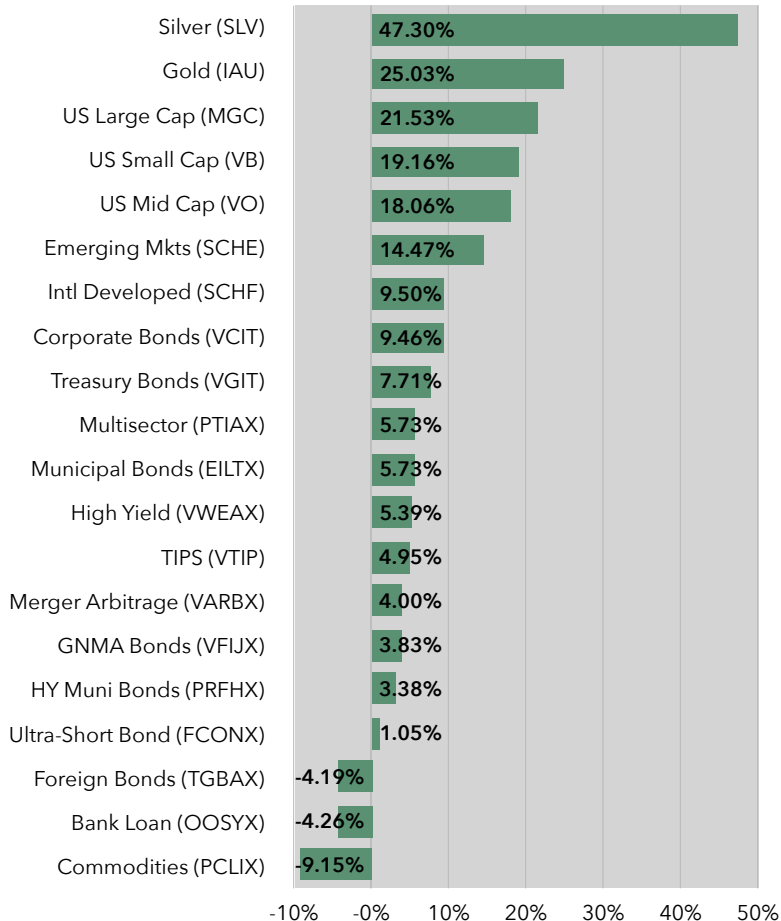
Putting 2020 in the Rearview Mirror

Everybody seems really excited to put 2020 behind them. It's both amusing and a little sad that some people think that things will automatically get better just because the odometer turned over. And besides, was 2020 really so bad? It certainly wasn't the worst year ever. Yes, I get there was a pandemic, but it hardly rivaled the Spanish Flu of 1918, or the Grand Poobah of them all, 1348, which was the worst year of the Black Death which killed over 200 million.

Cool references, grandpa, but what about in our lifetimes? That's fair, but I think even 2001 with the terrorist attacks on 9/11 would at least give it a run for its money. And with this being a financial publication, I would say 2008 was easily a far worse year, especially for those in my occupation. Not only did the Great Financial Crisis destroy livelihoods and wreak havoc on the retirement savings of countless investors—making my life super stressful—but that was also the year my favorite TV show *Jericho* was cancelled for a *second* time.

Just look at those returns at the bottom of the page. From my perspective, 2020 was prettay… prettay…prettay good. At least for investors, that is. We may even find ourselves looking back fondly on 2020 by the end of this year.

2020 Investment Vehicle Performance

Silver (SLV)	47.30%
Gold (IAU)	25.03%
US Large Cap (MGC)	21.53%
US Small Cap (VB)	19.16%
US Mid Cap (VO)	18.06%
Emerging Mkts (SCHE)	14.47%
Intl Developed (SCHF)	9.50%
Corporate Bonds (VCIT)	9.46%
Treasury Bonds (VGIT)	7.71%
Multisector (PTIAX)	5.73%
Municipal Bonds (EILTX)	5.73%
High Yield (VWEAX)	5.39%
TIPS (VTIP)	4.95%
Merger Arbitrage (VARBX)	4.00%
GNMA Bonds (VFIJX)	3.83%
HY Muni Bonds (PRFHX)	3.38%
Ultra-Short Bond (FCONX)	1.05%
Foreign Bonds (TGBAX)	-4.19%
Bank Loan (OOSYX)	-4.26%
Commodities (PCLIX)	-9.15%

Guess Again

This is usually the time of year where I review all my predictions from the previous year and grade myself. I do this because despite knowing how terrible humans are at predicting the future, I keep doing it anyway. It comes with the territory, I suppose. I think it is a worthwhile exercise to talk about what we get wrong because it helps to keep the heuristic-driven bias of overconfidence in check.

The first step in this process is going back and reading all the newsletters I wrote in 2020 and plucking out all of the predictions. The problem I ran into was the overwhelming majority of them actually came true. The real tragedy in that was half of them were meant to be *jokes*. The real gems are in the May issue, which was titled "The Year 1 AV (Anno Virum)" and was written back then but from the perspective of future me, today. Sorry if that's a little too Christopher Nolan.

Predictions ranging from interest rates, to the dollar, to gold and silver, to stimulus checks, to the election (well, not Georgia), to vaccine passports, to sales of the Flowbee I pretty much got right. I also predicted the high COVID rates in meat-packing plants would cause a resurgence in demand for local butchers. If you are an avid reader of the Mountain West News Bureau—and really, who isn't?—you'd know that demand for butchers is extraordinary right now. According to the news outlet, "You and everybody and their uncle" was one local butcher's response when an Idaho rancher wanted him to process more of their direct-to-customer product. The butcher is booked solid well into 2021, and others even into 2022.

I did get a couple things wrong, however. Despite buying stocks only a day or two after the market bottomed (fortuitous timing), I later trimmed those positions too early in anticipation of a second leg down which never came (at least not yet). I also predicted Denmark would become the second European nation to invoke Article 50 to leave the EU, but that was meant to be a joke. Incidentally, Brexit is finally, truly, over. I am going to try to keep the predictions to a minimum this year, but I will leave you with one…

The Religion of Tesla

Tesla had quite the run in 2020—up 743%—and it was finally added to the S&P 500 after reporting four straight quarters of profit. Profit not from selling cars, mind you, but from selling environmental credits. The company now sports a market cap of $805 billion, making it the largest automobile company in the world by that metric. In fact, it's so big you would need the next nine largest automobile companies combined to equal its market cap. All of which, with the exception of Ferrari, make electric vehicles, too. That's a market cap that equates to

Binge Box

Cuckoo (Netflix)

The show starts with a married British couple picking up their daughter Rachel from the airport following her gap year in Thailand. They are shocked to find she has brought along a 30-something, world-traveling hippie who goes by the chosen name "Cuckoo" (Andy Samberg). Comedy ensues. I may have started watching *The Simpsons* for Bart, but soon became more drawn to Homer. Cartman cracks me up on *South Park*, but I think Randy Marsh is actually my favorite character. Similarly, it's not the titular character that interests me—he actually annoys me—but rather his father-in-law (played by Greg Davies). A testament to this may be that the show survived another four seasons after Samberg's departure.

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					●

about $1.6 million for each of the 499,000 cars Tesla sold in 2020. By comparison, GM trades at a valuation of roughly $9k per car sold.

Look, I'll be the first to tell you many have been made to look like fools calling Tesla overvalued and predicting its imminent fall from meteoric heights. But I'm going to do it anyway. This bubble will pop at some point, so why not in 2021?

Rank	Company	Mkt Cap (USD $B)	Country
1	Tesla	805.19	USA
2	Toyota	210.94	Japan
3	BYD	98.38	China
4	NIO	96.71	China
5	Volkswagen	95.90	Germany
6	Daimler	75.95	Germany
7	General Motors	68.45	USA
8	BMW	55.11	Germany
9	Ferrari	54.34	Italy
10	Hyundai	48.55	South Korea

Thanks for reading and have a happy New Year.

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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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