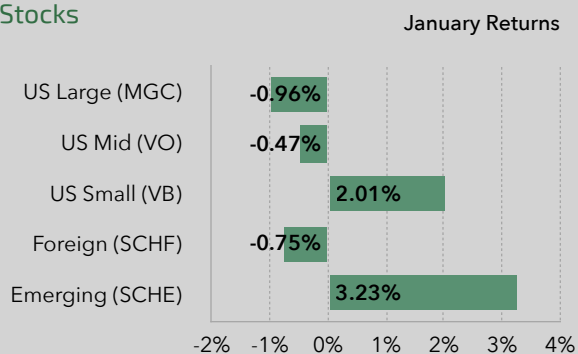


## January 2021

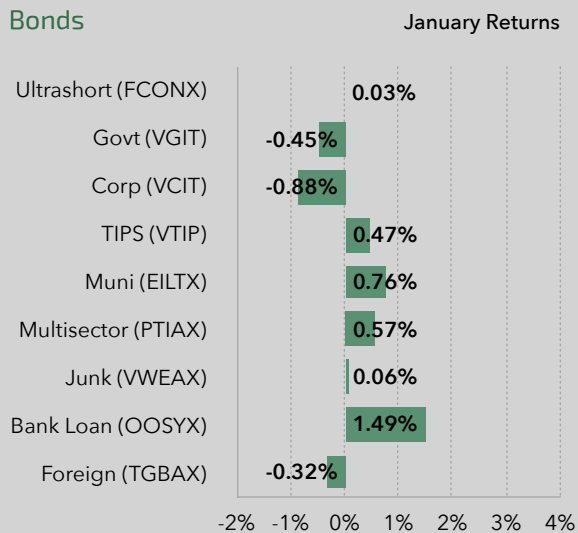
### Economic Data

- The number of US workers on the payroll rose a meager 49,000 in January while the unemployment rate fell four-tenths to 6.3%
- Retail sales were down 0.7% for the month of December with particular weakness in dining, electronics, and nonstore retailers
- Y/y inflation (CPI) edged up two-tenths to 1.4% in December
- Existing home sales rose 0.7% in December, with 2020 being the best year for home sales since 2006

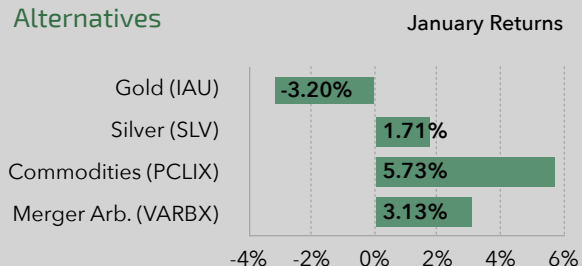
### Stocks



### Bonds



### Alternatives



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.

### GameStopped

We obviously have to talk about GameStop (GME), right? I honestly can't recall a time in my career when I have received so many questions from clients, friends, and randoms on the street about a stock. You've probably already read up on this, but if not basically what happened is a group of nihilists got together on the WallStreetBets sub-reddit and thought it would be fun to pile into GameStop and drive the price up. And so they did, and an army of useful apes joined them and it worked. For some, anyway. YOLO.

You might be thinking to yourself, "Ryan, that old curmudgeon, he must be fuming about these idiots on Reddit making a mockery of his precious stock market." But you'd be wrong. I actually thought this was pretty smart, not illegal, and kind of funny.

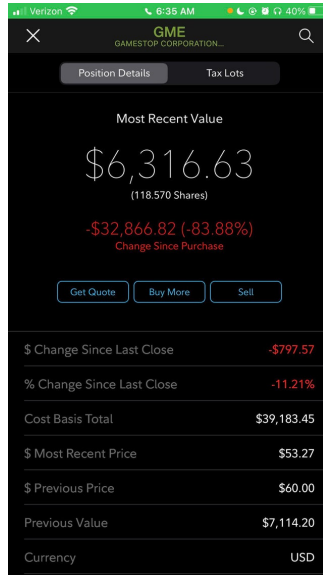
First, while the members of this group call themselves, affectionately, an offensive term for people with developmental disorders, they aren't. Well, not all of them, anyway. You can tell by their posts that the leaders in these chats are professionals—finance bros in their 20's and 30's who work as analysts, portfolio managers, and investment bankers—who use colorful language. The whole fascination with GameStop is attributed to a thoughtful, fundamental analysis by "TheRoaringKitty" (aka "DeepFu\*\*ingValue), who was a financial professional and is a CFA charterholder. It was also touted by Dr. Michael Burry of *The Big Short* fame. There is nothing fraudulent about telling people you bought a stock because you researched it and liked it and you happened to get a few million others on Reddit to follow you.

But things didn't really get interesting until users noted that about 140% of shares were shorted. This means that someone wanted to bet against the stock, and so they borrowed shares and sold them hoping the price would go down before they eventually bought them back to close out the position. And a lot of people thought betting against GameStop, a company that sells physical video games in malls, was a good idea because, you know, it's not the 90's anymore. However, if the shares go up your broker will demand more money to maintain your margin. If they go up too much and you can't make your margin call or are just tired of losing money, you will be forced to buy the shares back. And buying the shares puts upward pressure on the price, forcing other short sellers to buy, and so it creates a positive feedback loop known as a "short squeeze". This is a fairly common strategy for traders.

Another positive feedback loop was also at work here—the gamma squeeze. Some people who want to bet really big on a stock might buy out-of-the-money call options, which gives them the right to buy the stock within a certain timeframe at a certain price. Options are cheaper than stocks, so this is a leveraged bet. When you buy a call option on a stock, the dealer who sold it to you typically buys some shares in that stock to hedge her position. If the stock goes up, she'll buy a little more to increase her hedge. If there are a lot of other dealers doing the same, this will push the price up even further—a positive feedback loop.

Lastly, there was another sort of feedback loop at work. The YOLO, FOMO, "GameStonk!", "Let's take down the hedge funds", nihilistic, history-making, memes are funny, rocket emojis, aspect of it. The more GameStop went up, the more people got pulled in. I really hope Michael Lewis is working on a sample chapter right now for his next book, *Buying Stonks for the LOLs*.

When this happened, fundamental analysis became meaningless. Flows before pros, as they say. Anyway, GameStop, which was trading as low as \$2.57 per share less than a year ago, went all the way up to \$483.00 before crashing back down to about \$50 right now. Some hedge funds got squeezed. Some people made fortunes. Ironically, a lot of other hedge funds were among the winners. But there are also a lot of screenshots on Reddit like this one to the right, revealing the magnitude of the pain felt by individual investors who got sucked in late and were left holding the bag. I'm really hoping an article comes out revealing whomever it was that actually bought at \$483.



There was, however, one particular positive thing of note that came out of this meme stock craze. AMC, another Reddit favorite, was able to sell \$300 million in shares to raise cash during the run-up of its stock price. They also had \$600 million in convertible debt exchanged for shares. That's close to a \$1 billion balance sheet improvement. Redditors may very well have saved the movie chain from bankruptcy.

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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

### Harry Potter (Peacock)

There was an article out recently reporting that HBO Max was in the very early stages of a new series that will be set in the Wizarding World of Harry Potter. This got me excited to rewatch the films, so I decided to binge the whole Harry Potter movies collection, which is available on Peacock. Adding yet another streaming channel to your lineup probably isn't very appealing, but that's where they are. With eight films all clocking in at well over two hours, there is about 20 hours of content there. That's roughly the equivalent of two seasons of a regular show, so I think it qualifies as a binge even though they are movies. So if its been a while since you've been back to Hogwarts, I think it's worth revisiting.

## 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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