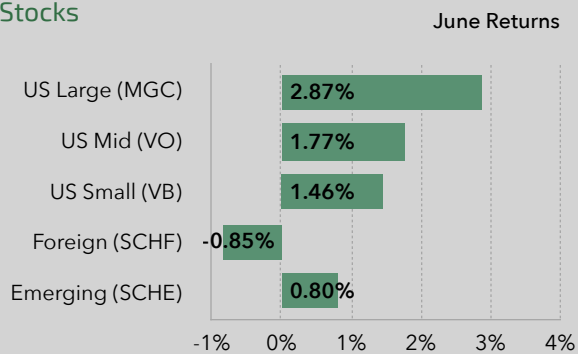


June 2021

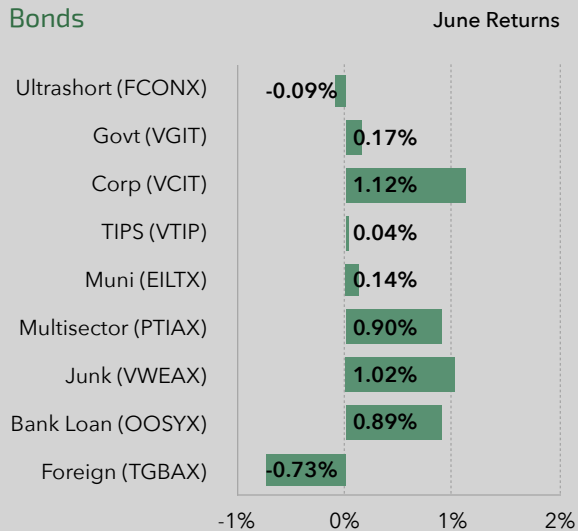
Economic Data

- Total nonfarm employment rose 850,000 in June, which conflicted with survey data that showed the unemployment rate holding at 5.9%
- Retail sales were down 1.3% for the month of May, led by a 5.9% decline for building materials & garden supplies
- Y/y inflation (CPI) came in at 5.0% in May—the highest since 2008—with used car prices still climbing rapidly
- Existing home sales fell for the fourth consecutive month, declining 0.9% in May; median home price was \$350,300

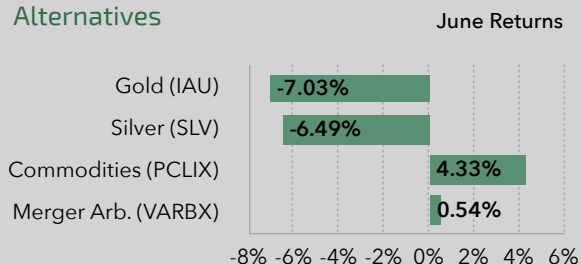
Stocks



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.

The Low Tax Migration

The current administration's push for a global minimum tax for companies has received widespread support, with 130 countries and jurisdictions signing on to an agreement. This represents about 90% of global GDP agreeing to a minimum corporate tax of at least 15%. Which, as a strategy, makes sense. I mean, if President Biden raises taxes, the US will just go back to the old days of slowly losing multinational companies to greener pastures. If he can turn those pastures brown as well, however, he reduces that risk. There are a few key holdouts right now, however, including low-tax Estonia, Hungary and Ireland. Ireland has been particularly successful in attracting large companies such as Medtronic and Johnson Controls to its shores with its low corporate tax rate of 12.5%. Without unanimous consent among all of the EU's 27-member bloc, the deal can't be ratified there.

But wait, if the US and these other countries were businesses and not governments, wouldn't this be called collusion and price fixing? What these 130 nations have agreed to do... is essentially to form a tax cartel, right? It's the kind of anticompetitive practice our government is supposed to protect us against, and regularly does under the Sherman Antitrust Act. Except when it comes to themselves. Or big tech, which doesn't really seem to fit the law as it was written—or at least that was my take from the dismissal of the federal government's antitrust case against Facebook a couple weeks ago. But I digress.

Back to governments. What if we did look at countries and their governments as competing businesses? Sure, they have incredibly wide economic moats and the switching costs can be extremely burdensome and go well beyond just money. But aren't governments just providing services (cops, courts, critical infrastructure, common defense, etc.) in exchange for revenue (taxes, duties, licenses, permits, etc.) from customers (citizens and businesses)? We typically don't think of countries as businesses competing for customers, and our border and immigration policies certainly don't give that impression. Plus there is the matter of brand loyalty (patriotism). However, it becomes a much more practical comparison when we talk about state governments.

	State	Net People Gained/Lost 2019	State-Local Tax Burden 2019*	State-Local Tax Burden Rank*
1	Florida	126,789	8.8%	43
2	Texas	114,194	8.0%	47
3	Arizona	65,967	8.7%	45
4	North Carolina	48,434	9.5%	32
5	South Carolina	41,443	8.9%	40
46	Massachusetts	-25,834	10.5%	15
47	New Jersey	-26,528	11.7%	7
48	Illinois	-81,770	11.1%	10
49	New York	-152,703	14.1%	1
50	California	-165,355	11.5%	8

Source: IRS - SIO migration data; *Tax Foundation

There is no minimum tax agreement between the 50 US states, and people are free to move in and out of states as they please. This means, whether they like it or not, states are competing with each other for customers. Income taxes range from 0% in eight states, all the way up to 13.3% for California's highest bracket. Likewise, state sales taxes can be anywhere from 0% (five states) all the way up to 7.25% in, again, California. Local municipalities can also levy their own separate sales taxes on top of these, and property and other taxes need to be considered to get a better picture of what your overall tax burden would be in a particular place. The Tax Foundation takes all these things into consideration when calculating their overall effective state-local tax burden rankings every year (see table on previous page). Combined with IRS data, we see that the top five states people are fleeing have among the highest tax burdens, with four of them in the top 10. Meanwhile, the perennial winners of new customers have among the lowest tax burdens. This is in no way surprising to me.

One of the biggest anchors that keep people living in places they would rather not is their jobs. With the widespread adoption of remote working during the pandemic, however, many people found themselves free to work from wherever they wanted. There are also other factors that may be in play now, such as political identity and severity of lockdown restrictions. The table on the previous page is based on 2019 data, so it cannot give us any insight into how things have changed during the pandemic. But U-Haul can. The moving truck company keeps tabs on one-way rental data, which can be used to observe migration trends. In 2020, the top three destinations for do-it-yourself movers were Tennessee, Texas, and Florida; three states with no income tax. The bottom three—those that saw the most out-migration—were New Jersey, Illinois, and California. All three of these states rank in the top 10 highest effective state-local tax burdens, according to The Tax Foundation. What's more, New Jersey and Illinois claim the number two and three spots for lowest funded ratios for their state pension plans with catastrophic levels of 36% and 38%, respectively. Not only are the taxes high, the money they do collect is poorly managed.

Tactical Asset Allocation					
Asset Class	Heavy Under-weight	Under-weight	Neutral	Over-weight	Heavy Over-weight
Fixed Income					
Duration	●				
Inflation				●	
Credit	●				
Foreign				●	
Equities					
Large Cap	●				
Mid Cap		●			
Small Cap	●				
Developed Intl.		●			
Emerging			●		
Alternatives					
Commodities					●
Hedging					●

Relocating to tax-friendly states, typically with warm climates, has long been part of a well-thought-out financial plan for retirees. In the post-pandemic world, it might also be an available and prudent option for those who are still working.

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Binge Box

Workin' Moms (Netflix)

Workin' Moms had me hooked from the opening scene. I mean, I don't know anything about being a mom—let alone a parent—or a woman trying to balance career ambitions with motherhood, but this is pretty much how I imagine it would be like. The series has an all-female writing room and an all-female lead camera crew, and a slew of female directors. It's raw and heartfelt and very funny and... Canadian. Binge all five seasons on Netflix.

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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