

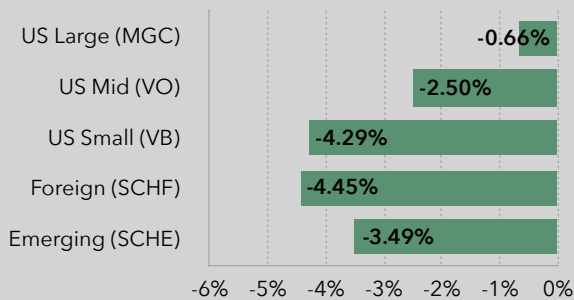
November 2021

Economic Data

- Hiring slowed in November with only 210,000 jobs added to the payrolls; the unemployment rate fell to 4.2%, though; the quit rate rose yet again to a record 3.0% in September
- Retail sales were up 1.7% for the month of October led by nonstore retailers and gas stations
- Y/y inflation (CPI) soared to 6.2% in October—the sixth month in a row at or above 5%—with energy rising the most
- Existing home sales rose 0.8% in October; median home price rose slightly to \$353,900

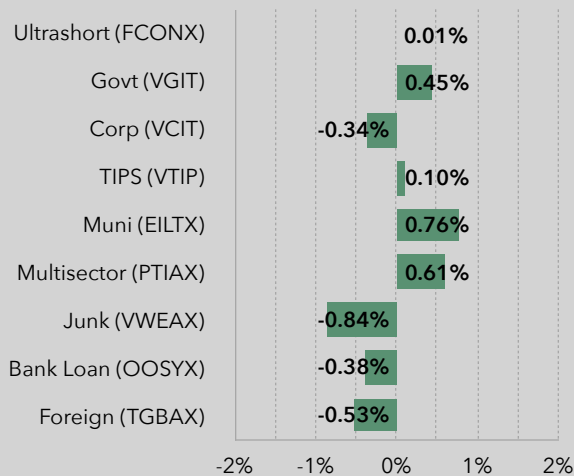
Stocks

November Returns



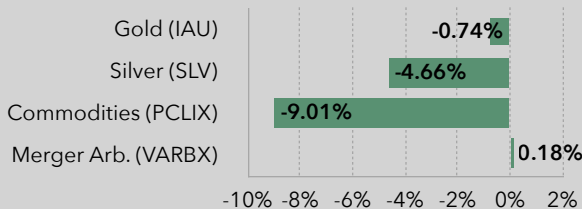
Bonds

November Returns



Alternatives

November Returns

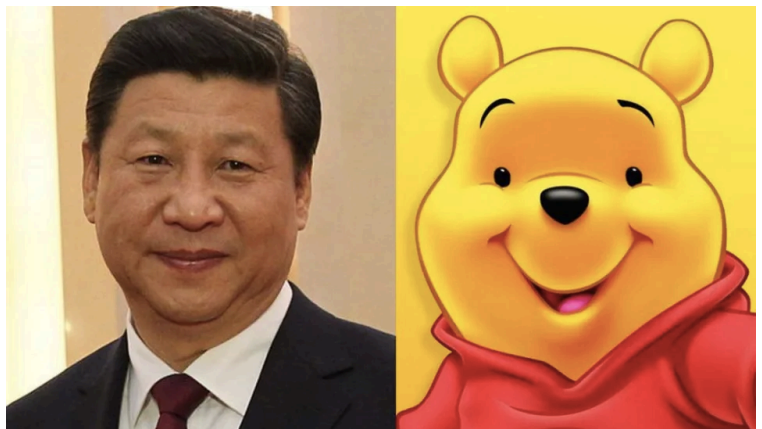


Performance data provided by Morningstar.

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.

What's an Anagram for Moronic?

While everyone was recovering from the food and wine excesses of the most expensive Thanksgiving dinner in history (thanks inflation), the media was writing all sorts of scary headlines about the WHO issuing a warning about the “Nu” variant of COVID. Wait, “Nu” sounds too much like “new” and that could be confusing. What's next? “Xi”?! No, no, China's not going to like that. Remember President Xi Jinping was the guy that banned Winnie the Pooh in China because people made memes suggesting he looked like the beloved cartoon bear. Not exactly a man with a thick skin. I do kind of see the resemblance:



Okay, “Omicron” it is then. This, of course, caused a knee-jerk reaction from feckless governments around the world calling for new travel bans and economy- and soul-crushing lockdowns. It also sent the market crashing, as trading algorithms reacted to the news. However, this new variant hardly warrants a panicked response, let alone any major changes to portfolios. This is the 13th variant to receive a greek letter designation, so this isn't really a shock. It's just an excuse to keep the story alive.

As everyone is an amateur epidemiologist by now, most of us understand that viral mutations typically lead to higher transmission rates but milder symptoms. This is because a virus that is too deadly becomes a victim of its own success.

Last week, South African Medical Association chairwoman Angelique Coetzee said “the new Omicron variant of the Coronavirus results in mild disease, without prominent symptoms.” So far all the data seems to show that Omicron fits with the historical pattern of virus evolution--something that should not be a negative for stocks.

RIP “Transient”

Meanwhile, the Fed has taken a more hawkish tone, which is a negative for stocks. Fed Chairman Jerome Powell finally admitted it was time to scrap the notion that inflation is “transient”, essentially coming to terms with something the rest of America had already been acutely aware of.

Build Back Better; Bye Bye Backdoor?

The House passed the Build Back Better Act, which is a \$1.7 trillion, 2,137 page behemoth that is going to take a lot to unpack. There are two particular provisions of interest with regard to financial planning, however:

- Closes the “mega-back-door” Roth IRA strategy, prohibiting all employee after-tax contributions in qualified plans from being converted to Roth regardless of income level, effective for distributions, transfers and contributions made after Dec. 31, 2021
- Eliminates Roth conversions for both IRAs and employer-sponsored plans for single taxpayers (or married filing separately) with taxable income over \$400,000 and married taxpayers filing jointly with taxable income over \$450,000; this provision applies to distributions, transfers and contributions made in taxable years beginning after Dec. 31, 2031.

So what does this mean—or at least what does it appear to mean at this point? Well, it hasn’t made it through the Senate yet and so there will likely be changes. My interpretation in its current form—which might not be correct—is that if you have after-tax money sitting in a 401(k) that you can take rollovers from, you might want to do it before the end of the year. Contact me if you think this applies to you.

Portfolio Positioning

We are still very much positioned for high inflation, with overweights to broad-based commodities, precious metals, and TIPS. From an equity standpoint, the US market is looking increasingly fragile, and valuations continue to be extremely high. By comparison, the MSCI Europe Index this month hit a record of about a 30% discount to its U.S. counterpart, based on forward P/E ratios. So relatively speaking, European stocks look like the better value

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					
Duration	●				
Inflation				●	
Credit	●				
Foreign				●	
Equities					
Large Cap	●				
Mid Cap		●			
Small Cap	●				
Developed Intl.		●			
Emerging			●		
Alternatives					
Commodities					●
Hedging					●

Binge Box

For All Mankind (AppleTV+)

I’m still almost exclusively watching AppleTV+ shows since getting the service a few months ago, and the content I’ve seen so far is great. *For All Mankind* was one of the first series they put out, so that means there is already two seasons to binge with a third on the way. The show revolves around NASA engineers and astronauts in an alternate history where the space race between the US and the Soviets doesn’t end. Each season is set primarily in one decade, with season 1 showing only a few changes to history and technology in the 70’s, with more exciting advances in the 80’s of season 2. The show has great character development with a number of powerful scenes surely to elicit an emotional response from viewers.

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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