The Type 2 Investor
February 9, 2022

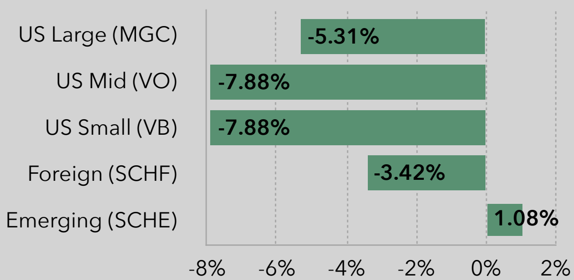
January 2022

Economic Data

- Payrolls jumped as 467,000 jobs were added in January; the unemployment rate edged higher to 4.0%, though
- Retail sales were down 1.9% for the month of December, dragged down by department stores and nonstore retailers
- Y/y inflation (CPI) rose to 7.0% in December—the eighth month in a row at or above 5% and the highest print since June 1982
- Existing home sales declined 4.6% in December amid tight supply and higher mortgage rates; median home price was $358,000

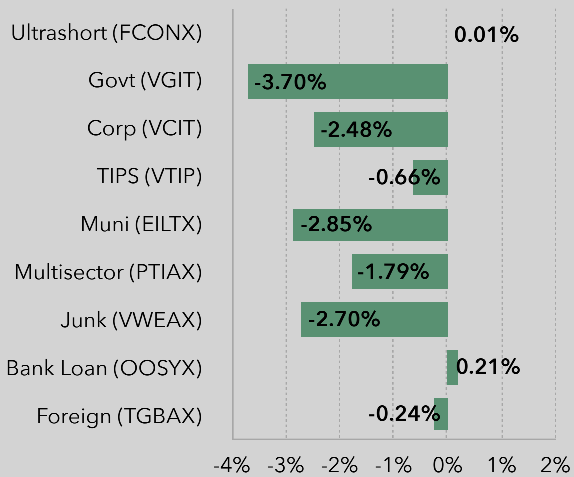
Stocks

January Returns



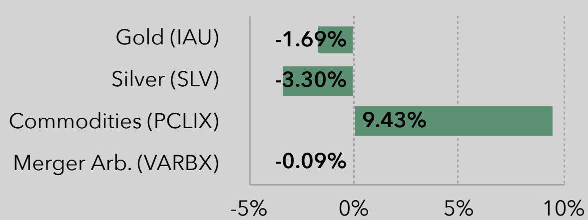
Bonds

January Returns



Alternatives

January 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 not guided by emotions. It is that second system — type 2 — that we want in control of our investment portfolios.

So Goes January, So Goes the Year

Both stocks and bonds stumbled out of the gate to begin 2022, which is not surprising with tightening monetary policy staring both in the face. Some of the biggest losers were lockdown darlings such as Netflix (NFLX: -29.10%) and Peloton (-23.57%), as well as vaccine makers Moderna (MRNA: -33.33%) and BioNTech (BNTX: -33.25%). Meanwhile, boring old energy stocks bucked the market trend with ExxonMobil (XOM: +24.14%) and Schlumberger (SLB: +30.45%) being two of the best performers. We shall see if markets follow the old Wall Street adage with January setting the tone for the rest of the year, but I would not be surprised if it does.

The Fed continues to fall behind where they should be relative to economic data, but at least they indicated they were most definitely, probably going to do something soon. The general market consensus is that rate hikes are going to commence in March and the Fed will start to taper its balance sheet right after that, and I have no reason to believe otherwise.

Expectations are for a total of four to five rate hikes for the year, which at 0.25% each would put us at 1.0% to 1.25% by the end of the year. I'm sure that will put a big bite dent in the 7.0% inflation the consumer is struggling with. There is the chance, though, that the fed comes out swinging with a 0.50% increase to kick things off. I would put the odds of that below 50/50 as this is not a Fed that likes to surprise the markets. However, with the decent payrolls number that just came out on Friday and enough chatter in the market about the possibility, I wouldn't rule out 50 bps. I would applaud the move, but the markets likely would not. But this is the no-win situation we've gotten ourselves into. Either let inflation run wild or bring asset prices back down to Earth.

There were a couple of asset classes that shined last month. An obvious one being commodities, which had another scorching month rocketing 9.43% higher. That certainly doesn't scream confidence in the Fed's ability to manage inflation. Much of it is likely due to continued supply chain woes. The 50 mile long "Freedom Convoy" in Canada, as well as similar, yet smaller protests around the globe will add to logistical troubles if governments don't start listening to what the people are telling them.

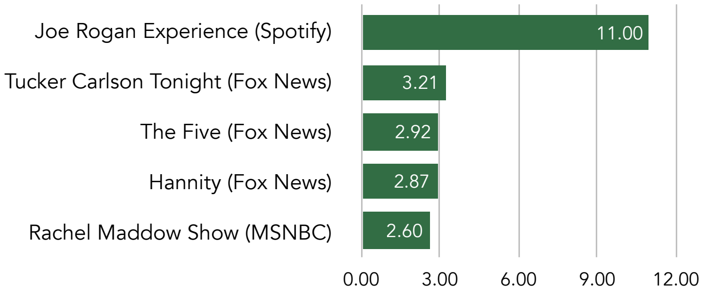
The other asset that did rather well was emerging markets stocks. This can largely be attributed to China's decision to be more accommodating with monetary policy at a time when the US is doing just the opposite.

I Hope Neil Young Will Remember

News broke on January 25 that Neil Young was giving Spotify (SPOT) an "it's him or me" ultimatum regarding wildly popular podcaster Joe Rogan. Young accused Rogan of spreading misinformation and demanded he be censored and removed from the service. Some readers will side with Rogan on this, while others will side with Young. Some might just be wondering what I am even talking about in the first place. Either way, this is not really the place to have that particular debate. I do, however, want to talk about how this is impacting the stock, how Spotify has responded, and just how influential Joe Rogan has become in the media world.

A three-hour-long episode of the *Joe Rogan Experience (JRE)* typically garners an estimated 11 million viewers, according to Spotify. According to Nielsen Ratings, the highest rated cable news program for 2021 was *Tucker Carlson Tonight* with 3.21 million viewers, and the highest rated cable news program on any network other than right-leaning Fox News is MSNBC's *Rachel Maddow Show* with 2.60 million viewers. It's a two-horse race in the cable news game, as scandal-plagued CNN didn't even crack the top 20.

Ratings (Average Viewers per Show in Millions)



Sources: Spotify, Nielsen

Think about that for a second. *JRE* is more than three times more popular than the most highly rated cable news program, and more than five times more popular than the highest rated left-leaning news program. He is absolutely crushing the mainstream media and, like it or not, he is where many people get their information from.

Rogan puts out three or four episodes per week. So that means he is putting about 630 minutes worth of content on Spotify every week and generating about 6.93 billion minutes of listening. Meanwhile, my favorite Neil Young song, *Harvest Moon*, is five minutes long and Neil Young attracts 6,027,000 listeners a month, according to Spotify. That amounts to about 6.95 million minutes of listening per week. Which, by my math, means Joe Rogan is about 1,000 times more important to Spotify than Neil Young.

Not surprisingly, Spotify promptly removed Neil Young as requested and kept its cash cow. In response, its stock price ~~fell~~ rose 5% over the next week. It is true that the stock has fallen since then. However, the drop was immediately following poor guidance in their earnings release and is essentially the same market reaction Netflix and Facebook also received amid slowing user growth. Context is everything.

Binge Box

Starstruck (HBO Max)

In this critically acclaimed romantic comedy, our quirky heroine Jessie (Rose Matafeo of New Zealand) enjoys a New Year's Eve hookup with a guy named Tom that she meets at a club. The next morning she realizes that Tom (Nikesh Patel) is actually a big-time movie star. Why she didn't realize this the night before is beyond me, especially since she works at a movie theater. Anyway, despite the title she isn't all that starstruck by him, and it's actually Tom that seems more interested in pursuing her. It's funny and entertaining and enjoyable to watch. Season 2 was just released in the UK, so hopefully it makes it onto HBO Max soon.

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					●

Portfolio Positioning

I believe portfolios are properly positioned with underweights to both stocks and bonds, while favoring international and emerging markets relative to domestic. I see merger arbitrage as a stable place for money, while commodities could still have room to run before supply chain issues are solved and inflation is contained.

Thanks for reading.

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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.