

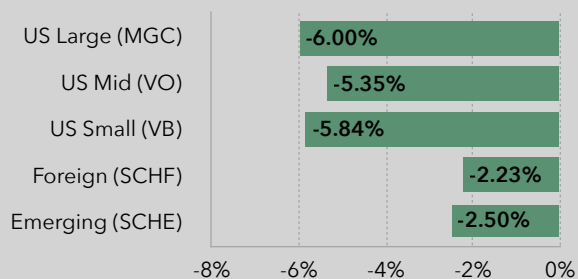
December 2022

Economic Data

- 223,000 jobs were added in December, and the unemployment rate decreased to 3.5%
- Retail sales were down 0.6% in November with weakness in autos, building supplies, furniture, and department stores
- Y/y inflation (CPI) trended down in November, but was still hot at 7.1%—the 18th month in a row at or above 5%
- Existing home sales fell 7.7% in November, the tenth straight month of declines, and are now down 35.4% y/y; median prices were down to \$370,700

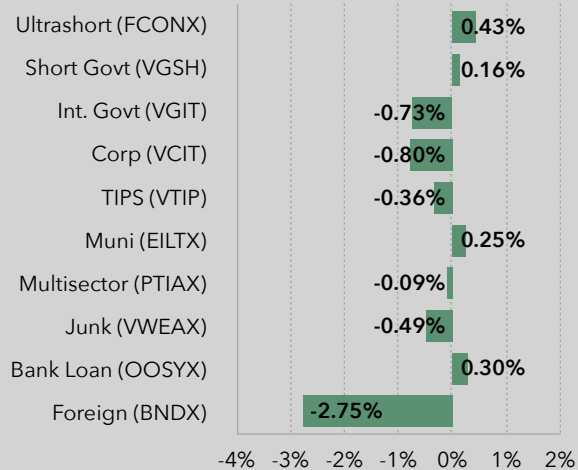
Stocks

December Returns



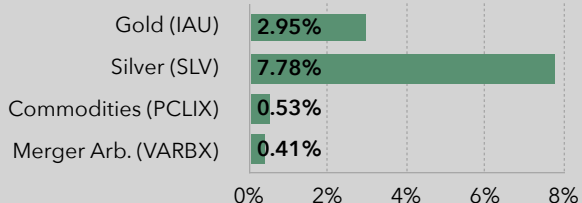
Bonds

December Returns



Alternatives

December Returns



Performance data provided by Morningstar

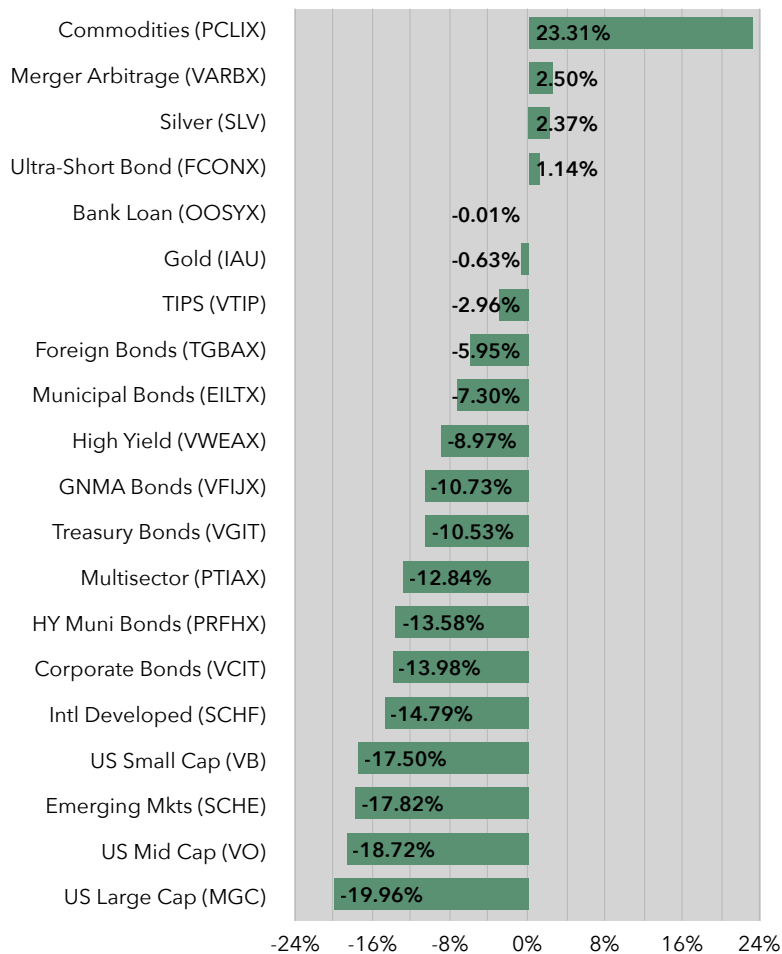
The brain uses two systems to process information. The first type is intuitive but lazy, rapidly forming judgements with no conscious input. The second system is slow, reflective, and not guided by emotions. It is that second system — type 2 — that we want in control of our investment portfolios.

2022 in Review

It's time to review investment performance for 2022, which was an abysmal one for traditional investments and crypto kitties alike. The best performing asset of 2022 was once again broad-based commodities (PCLIX), which added an additional 23.31% return to the 44.03% it clocked in 2021. Merger arbitrage (VARBX) and silver (SLV) were two other alternative assets that managed to put up gains in a tough year, showing just how important these uncorrelated assets can be to a portfolio.

Meanwhile, stocks finally fell back to Earth after three straight years of impressive double-digit returns. Bonds, usually a reliable diversifier against equities, were also crushed amid a necessarily aggressive upward trajectory for the federal funds rate. Even TIPS, despite their inflation-protection component, struggled a bit. Speaking of inflation, CPI was up 6.5% for the year, following a 7.04% increase in 2021. That's a lot, and it means that all but one of the investment vehicles in the chart below unfortunately failed to keep up with the rapidly rising cost of living.

2022 Investment Vehicle Performance



Guess Again

The New Year is when I like to go back and review all my predictions from the previous year. I do this because despite knowing how terrible humans are at predicting the future, I keep doing it anyway. It really is a rather fun part of the job. 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 2021 and 2022 and plucking out all of the relevant predictions. I made one seemingly dumb prediction in January of 2021: "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." It has taken a lot longer for this one to materialize than I anticipated, making me look like a pretty big idiot. But 2022 finally saw the fall of Tesla from grace, crashing 65% during the year.

In October 2021 I said, "I expect the rise in new car prices will be sticky, while the bulk of the increase in used car prices will dissipate. Not in the next few months, mind you, but perhaps in the next few years." Used car prices started falling in July and have continued to do so every month since. They are now down 8.8% year-over-year as of December, according to the US Bureau of Labor Statistics, and 14.9% based on the Manheim Used Vehicle Value Index. Meanwhile, new car prices have indeed been sticky and still continued to rise until December, up 5.9% over the past year.

In January 2022 I made a slew of rapid-fire predictions:

- "The Fed will be tapering and hiking this year and that's bad news for both stocks and bonds." Sarcastic slow clap for being right.
- "The Fed loses its backbone after the first sign of a market crash and pumps the breaks on tightening." This hasn't been the case as of yet, and instead the Fed has shown quite a bit of backbone in its fight against inflation
- "With real short-term interest rates at -7%, precious metals make a comeback." Not quite, but they were still among the best-performing assets in our portfolios
- "\$100 oil and continued rise in food prices keep inflation running hot through 2023, or at least until the next recession." Oil prices have eased a bit, but energy prices are still up 7.3% and food prices are up 10.4% for the year

Binge Box

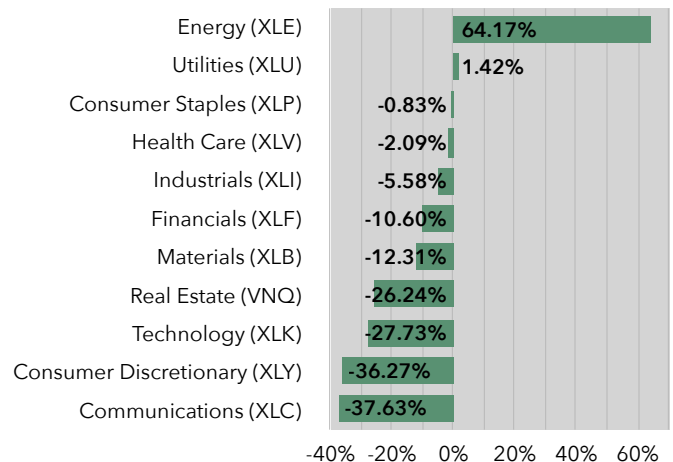
Wednesday (Netflix)

Netflix released a new series bringing the enduring Addams Family back into our lives. The primary focus of the eponymous show is on Wednesday, the macabre daughter, and her first year at Nevermore Academy. This is good, because while Jenna Ortega is brilliant in her portrayal of Wednesday Addams, the rest of the family wasn't cast so well, in my opinion. Luis Guzman just can't hold a candle to the swashbuckling Raul Julia, who played Gomez in the 90's, and Fred Armisen has nothing on Christopher Lloyd's Uncle Fester. Luckily they have very little screen time, and besides that and a few annoying Gen Z things, it's a really great show to watch. Stream the first season of Wednesday on Netflix.

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					●

- "Value stocks in the Financials, Energy, and Consumer Staples sectors outperform growth stocks in the Technology and Consumer Discretionary sectors." Take a look for yourself:

2022 Sector Performance



- "Weed stocks become en vogue again." Haha, no, they got smoked (see what I did there?) as first-mover advantage evaporated and a nationwide weed glut sent prices crashing
- "Matt Stafford finally wins a playoff game...and another...and another...and a Super Bowl ring." I'm super happy for him and his family, and also happy they tanked this year giving even more value to the first-round pick my Lions got in the trade

In February 2022 I said, "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." Yep

April 2022: "I expect we will begin to see some softness in real estate prices as the final rush to the market fades." Existing home sales have

declined for ten straight months now, and the real estate market is in the midst of an ice age

September 2022: "Additionally, the president gave yet another extension to the pause on student loan repayments (final 'final' one, for realies this time) until the end of the year." Haha, my snarky parenthesis comment proved prescient as he extended it yet again

Overall, not a bad year of predictions. So what do I think 2023 has in store for us? Not much, but here are a few guesses:

- The Fed raises us into a recession, then doesn't cut right away but rather holds them above 5%. Why? Because, when asked how long he thought rates should remain above 5%, Fed Governor Raphael Bostic responded: "Three words: a long time." Take them at their word and stop trying to front-run them
- The S&P 500 falls to 3200 during the year, but rebounds. Probably not, but people like S&P 500 price predictions
- Commodities make it three years in a row as the best performing asset class, thanks in part to precious metals
- ChatGPT makes most of us obsolete
- The Detroit Lions are picked for HBO's Hard Knocks again, win the NFC North, and make a deep playoff run. They replace the Dallas Cowboys as "America's Team"

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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