The Type 2 Investor

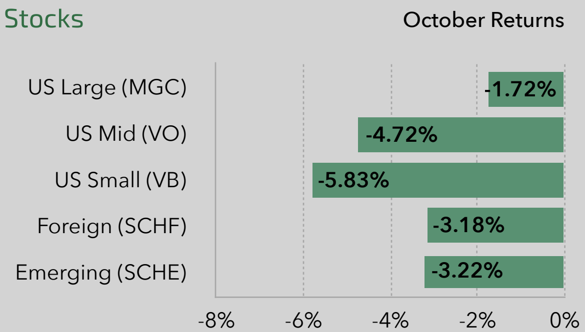
November 13, 2023

October 2023

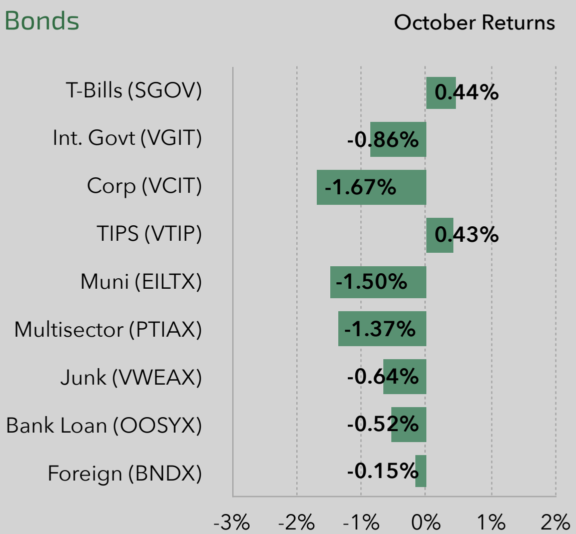
Economic Data

- Only 150,000 jobs were added in October; the unemployment rate edged up to 3.9%
- Retail sales were were up 0.7% in September with miscellaneous store retailers leading up 3.0%
- Y/y inflation (CPI) continued to rise at a 3.7% pace in September while the core rate (less food and energy) fell to 4.1%
- Existing home sales fell 2.0% in September and are down 15.4% y/y; median home price fell 3.14% to $394,300

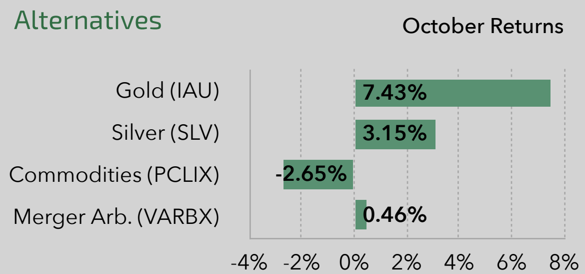
Stocks



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

How Taylor Swift Saved Third Quarter GDP

Third quarter GDP came in at a 4.9% annualized growth rate, with 1.62 percentage points of that attributed to services. It was the strongest we have seen since the 3Q of 2021 when covid restrictions were lifted and people were finally free to go out and spend frivolously. This time it was all about Taylor Swift concerts. Well, she might have had some help from Barbie. And Oppenheimer. And maybe just a wee bit from the $2 trillion in deficit spending; a number indicative of a major economic crisis.

Realty Check

I have only bought one property in my life. It was a condo in the Ravenswood neighborhood of Chicago that I purchased with my girlfriend at the time. We found the property on our own, viewed the property by ourselves during an open house, did our own comps, and put an offer in. Except for the final signing, the whole process was done electronically through RedFin. I only remember two things about the realtor. The first was that she kept calling the sconces—you know, the wall-mounted light fixtures— 'scones', like the delicious British pastry. And second, she collected a five-figure check at the closing. This struck me as excessive given she didn't know much about real estate and was seemingly absent during the whole process. Now I know there are realtors out there that are great at what they do and a value-add for their clients, but my sample size is only one and it happened that she was terrible.

It's a good thing when technology makes it easier for us to find the home of our dreams, to gather all the documents and approvals needed, and to make the process much more streamlined. Technology has resulted in improvements in efficiency in pretty much every other industry, as well. And when industries are disrupted by technology, costs usually come down or the experience gets better. But for some reason realtors have, for the most part, managed to keep a stranglehold on the their 6% commissions.

Anyway, a federal jury in Missouri ordered the National Association of Realtors (NAR) and two of the nation's biggest real estate brokerages–Homeservices of America and Keller Williams Realty–to pay almost $1.8 billion in damages. The jury found they conspired to keep commissions paid to real estate agents artificially inflated. They basically argued that by forcing sellers to pay the buyers' agents commissions, they created an anticompetitive environment.

The NAR will obviously appeal, but this verdict and other pending lawsuits are a major blow to realtors' control over the home buying process. The ultimate result should be lower commissions, which is about the only good news out there right now for potential home buyers and sellers.

Thanks to 8% mortgages and sky-high prices, housing affordability has fallen to 94.1 as of September, according to NAR, and is at its lowest levels since the 1980's. Anything below 100 indicates a household with a median income does not earn enough money to get approved for a mortgage on a median-priced home. This is a far cry from the pandemic heydays with sub-3% mortgages driving the affordability index to just above 180 at one point in 2021. This means that affordability levels are almost half what they were just a couple years ago. According to the Wall Street Journal, there has never been a worse time to buy instead of rent as buying a home is 52% more expensive than renting one.

I think the real estate market will continue to cool, and perhaps enter an ice age of sorts. It is difficult to think of a good reason for a homeowner to sell and let go of their 2.75% mortgage. And buyers who think they can just refinance when rates go lower need to come to terms with the idea that rates are probably never going to be close to that low again. They may even need to consider that rates could actually go higher yet. This is the new reality of realty.

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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

Party Down (Starz)

14 years ago a really great show called *Party Down* was released with little fanfare. I don't think I discovered it until after it was cancelled following season 2. It was a show about a bunch of would-be actors in LA working as caterers because they never caught their big break. It's a delightfully funny show with a cast that, ironically, have all gone on to have pretty big acting careers after the show ended, including Adam Scott, Ken Marino, Ryan Hansen, Martin Starr, Jane Lynch, and Lizzy Caplan. Good news: the show has been brought back this year for a third season. You can binge it on…Starz? Looks like I'm subscribing to yet another streaming service.

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.