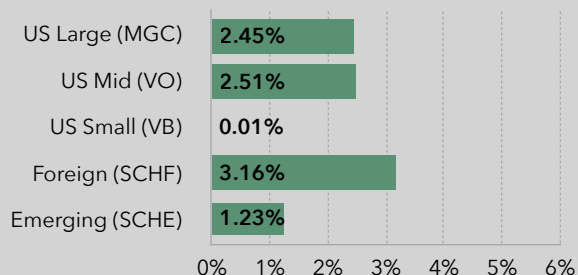## August 2024

Economic Data

- Massive 818,000 jobs downward revision over the past 12 months; only 142,000 jobs were added in August; the unemployment rate edged lower to 4.2%
- Retail sales were up 1.0% in July, with auto dealers up 4.0% and miscellaneous store retailers down 2.5%
- Y/y inflation (CPI) tempered to a 2.5% pace in August, dragged down by energy; the core rate (less food and energy) remained at 3.2%
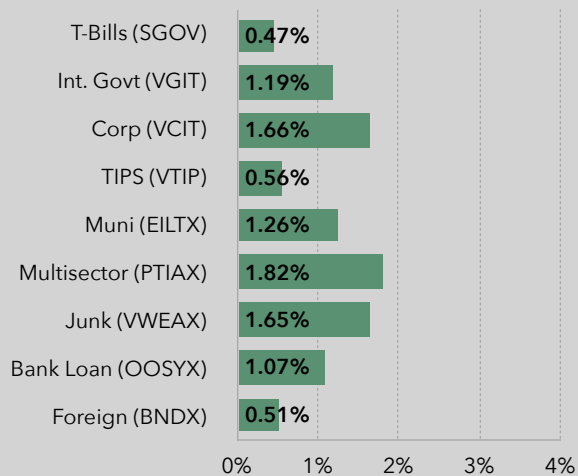- Existing home were up 1.3% in July and are down 2.5% y/y; the median home price fell to $422,600
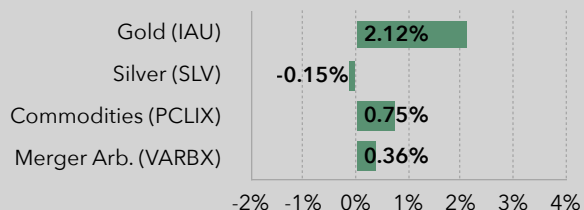
Stocks — August Returns

US Large (MGC)	2.45%
US Mid (VO)	2.51%
US Small (VB)	0.01%
Foreign (SCHF)	3.16%
Emerging (SCHE)	1.23%

Bonds — August Returns

T-Bills (SGOV)	0.47%
Int. Govt (VGIT)	1.19%
Corp (VCIT)	1.66%
TIPS (VTIP)	0.56%
Muni (EILTX)	1.26%
Multisector (PTIAX)	1.82%
Junk (VWEAX)	1.65%
Bank Loan (OOSYX)	1.07%
Foreign (BNDX)	0.51%

Alternatives — August Returns

Gold (IAU)	2.12%
Silver (SLV)	-0.15%
Commodities (PCLIX)	0.75%
Merger Arb. (VARBX)	0.36%

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.

Goodbye, Good Debt

Twenty years ago, I proudly left the campus of Michigan Tech with a degree, a hangover, and a pile of debt. Scholarships and wages from my job mixing paint at Walmart weren't enough to get me there, despite choosing an in-state school with relatively low tuition. The gap was filled with student loans and high-interest debt on a stack of roughly seven maxed-out credit cards. That is not a complaint, by the way. I knew exactly what I was doing. If anything, I'm grateful, because without those willing to lend to me I wouldn't have finished college.

The job market still wasn't the best back then, but the economy was starting to bounce back from the dot-com bust. I had two options. The first was to stay at Walmart on the management track. Not a bad opportunity, honestly. The second was to accept an offer working under the local portfolio manager for the Wells Fargo Private Bank office in Marquette, MI. The Wells Fargo pay was less, but investment management was where my heart was, so that's what I did.

I wasn't exactly rolling in it on my $30k per year salary. The credit card payments were a drag and it was about to get worse as the six-month grace period on my student loans was coming to an end. I contacted a student loan servicer and inquired about consolidating the student loans to lower the payments. The timing for a job may not have been the best, but the timing for consolidating was. Student loan interest rates were at a record low. If I made my first year's worth of payments on time and signed up for direct debit, they could offer to consolidate my subsidized and unsubsidized loans for 20 years at a fixed rate of 1.625%.

I said to the representative on the phone, "you know that's lower than the long-term rate of inflation, right?"

"What was that?", she responded.

"Never mind, I'll take it," I quickly replied.

And that was it. Thanks to good luck, I had my loans locked it at an insanely low rate for the next two decades. I always paid on time, but never a penny more than I had to. I could have paid it off more than a decade ago, but at that rate why would you? It's good debt: low interest on something of value. It would be like paying down your 3% mortgage early in a 7% mortgage environment (please don't do that).

Last month I made my last payment. I have been looking forward to this day for 20 years. In a weird way, though, I almost miss the good debt. Almost.

Rate Cuts Coming

The government overstated the amount of jobs created in the past year by 818,000. With the weakening job market and softening rate of inflation, the Federal Reserve has telegraphed that they will begin to cut rates this month. This month's jobs report was weak, too, but the unemployment rate actually went down. So I don't think we'll see a 50 bps cut in rates next week. 25 bps ought to do it.

Presidential Debate

I watched the presidential debate. It was hard work. My impression is that Kamala Harris came in well-prepared, spoke rehearsed lines in front of friendly moderators and came away as the winner. Donald Trump appeared rattled at times, rambled off-the cuff and did not maintain the calmer composure he displayed against a bumbling Joe Biden. In the end, though, neither candidate came off as honest or genuine to me. Neither stayed on topic or provided any real substance or policy details, just empty rhetoric. It was a struggle for any independent thinking voter to watch. Prediction markets, where real money is on the line, is now slightly favoring Kamala Harris. My prediction has shifted from a Trump victory to a toss-up.

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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

Dark Matter (AppleTV+)

One of my favorite Sci-Fi shows growing up was *Sliders*. In the show, a young genius invented a device that allowed him to slide between alternate dimensions. It was a premise that allowed the writers to engage in thought experiments of what life would be like with alternate histories, or different political structures, or different cultural norms. Dark Matter does something similar, albeit in a less whimsical, darker and unnecessarily convoluted way. Still, the premise is fun, and the acting by Joel Edgerton and the ageless Jennifer Connelly keep you invested in the lead characters. Stream the first season on AppleTV+. Better yet, go back and watch *Sliders* on Peacock.

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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