The Type 2 Investor

July 13, 2026

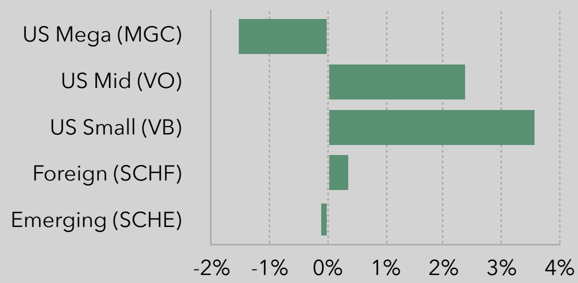
June 2026

Economic Data

- Payrolls rose by only 57,000 in June and the unemployment rate was edged down to 4.2%
- Retail sales were up 0.9% in May, with gasoline station sales leading for a third month, up 3.4%
- Y/y inflation (CPI) continued heating up in May to a 4.2% pace due to higher energy costs; the core rate (less food and energy) rose to 2.9%
- Existing homes were down 2.4% in June but up 2.8% y/y; the median home price rose to $440,600

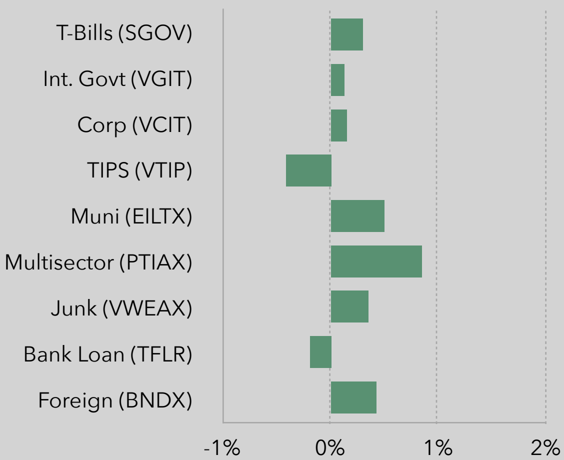
Stocks

June Returns



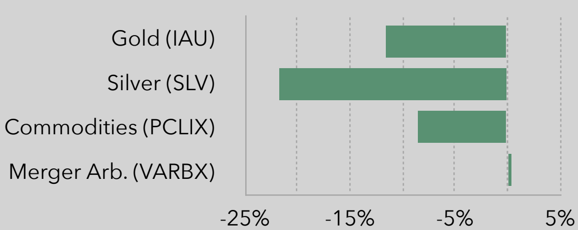
Bonds

June Returns



Alternatives

June 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.

Should Your Kid Get a Trump Account?

Happy Semiquincentennial (yes that's a real word). Our nation celebrated 250 years of independence last week. I was on Long Island, where it was a bad day to be a hot dog as one of America's greatest athletes, Joey Chestnut, took down 66 of them. I added a much less respectable two to that count.

The 4th of July also marked the first day families with children who are US citizens can open the new tax-advantaged Trump Accounts. The president has proven yet again he is not very creative at naming things, adding one more type of financial account to a growing pile of them named after politicians: Archer Medical Savings Accounts (US Representative Bill Archer), Coverdell Education Savings Accounts (US Senator Paul Coverdell), Keogh plans (US Representative Eugene Keogh), and Roth IRAs (US Senator William Roth).

Contributions are invested (generally in low-cost US index funds), grow tax-deferred, and are taxed as ordinary income upon withdrawal in retirement, much like a traditional IRA. No withdrawals are permitted during childhood, but once the funds unlock, there are fewer guardrails than with something like a 529.

Children born between the beginning of 2025 and the end of 2028 will receive a $1,000 federal deposit. On the one hand, I really like the idea of kids having a piece of the US stock market. On the other hand, it really sucks to have been born on December 31, 2024. I don't like it when the government picks winners and losers, and it also feels weirdly like they are trying to incentivize couples to get busy during 47's term.

Taking the free $1,000 if you have an eligible child is an easy call. Whenever you have a legal way to get some tax dollars back from the government, you should. Accounts are opened via TrumpAccounts.gov, the IRS, or the official app, and can be moved to outside custodians once they are set up for the new account type. Each beneficiary can have up to $5,000 put in their account each year, plus up to $2,500 in employer matches.

The more interesting thing, though, is that anyone can put money into any child's account. Dozens of companies and billionaire CEOs have pledged contributions. For example, up to 25 million children age 10 and under who were born before 2025, live in ZIP codes with median household income below $150,000, and do not receive the federal $1,000 seed are eligible for a one-time $250 contribution from the Michael & Susan Dell Foundation. I mean, people are always saying if only [insert hated billionaire's name here] would give their money away to everyone, it would fix all of our problems. It won't, but it's still nice to see. Let's be honest, in 18 years a bunch of newly-minted adults are just going to raid these accounts, pay the taxes and early-withdrawal penalties, and buy, I don't know, hoverboards. But not your kids. Your kids will be responsible.

Contributions to Trump accounts are not tax-deductible, and the distributions are taxable. The 529 plan is still a superior vehicle for saving for your child's education and now offers Roth rollover optionality. And the UTMA is, in my opinion, a better vehicle for building all-purpose wealth for your child with the proper tax strategy. You should still open a Trump account for any eligible child, if only in the hope of getting some of that billionaire money.

Warshing Up at the Fed

The Fed's first statement with Kevin Warsh as chair was brief and to the point. At a concise 116 words, it was dramatically shorter than the previous statement, which came in at 248 words. Short, sweet, and to the point. It took a hawkish tone, as well, closing with the declaration that "The committee will deliver price stability." I think this sets the tone that the Fed will focus on fighting inflation and not worry much about reassuring investors and supporting asset prices. I also don't expect them to telegraph every move, like the market has become accustomed to.

Trump wants lower rates, but lowering rates is dovish and to fight inflation the Fed would raise rates. So what can we expect? It is quite possible that the administration just didn't like former Fed chair Jerome Powell, and the clamoring for lower rates was just political theater. If that's the case, then I would expect Trump to stop meddling in the Fed's business and just let Warsh cook. We'll see about that.

It's also likely that, with oil prices actually lower than they were before the kerfuffle in Iran, CPI will be ticking down in the coming months. The Fed could simply deliver on price stability by not doing anything. If CPI falls enough, then maybe rate cuts are back on the table.

Warsh has made comments that lead me to believe that he wants to shrink the balance sheet. This would mean the Fed would stop buying bonds in the open market, stope reinvesting proceeds from matured bonds, and maybe even actively sell bonds. This would be hawkish as the market would demand higher rates if there was more supply of bonds out there.

I think he could actually do both things. It sounds counterintuitive, but he could cut rates on the short end and simultaneously shrink the balance sheet, causing rates to rise on the long end. This is called a bear steepener, because the yield curve gets steeper and bond prices further out on the curve fall.

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					●
Merger Arbitrage					●

This scenario would warrant maintaining our shorter-duration bond positioning. It would also mean higher 30-year mortgage rates.

Ryan P. Layton, CFA
p: 612-810-2230
e: ryan@emeraldspark.com

Binge Box

Dungeon Crawler Carl

Sometimes I binge books instead of TV. The *Dungeon Crawler Carl* series was recommended to me last month, and I'm already on the fourth book in the series. The premise of this dark comedy is that a group of technologically superior aliens has claimed our planet for its resources. They have flattened all of the world's buildings and turned the Earth into an 18-level dungeon. Those left are given the option to enter the dungeon and fight for their survival in a sort of real-live *Dungeons & Dragons* type role-playing game. Our hero, Carl, enters with his ex-girlfriends cat, Princess Donut, to fight monsters and go on quests. Eight books are already out, and the series is expected to span 10 books.

About EmeraldSpark

EmeraldSpark Investments, LLC is a Registered Investment Adviser. 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.