

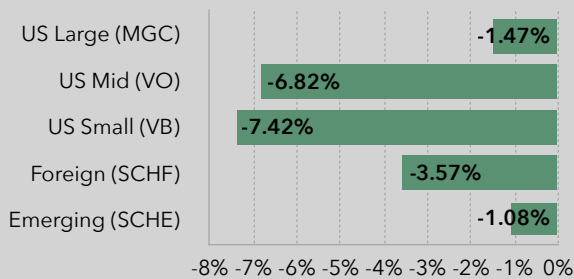
December 2024

Economic Data

- 256,000 jobs were added in December; the unemployment rate edged lower to 4.1%
- Retail sales were up 0.4% in December, with miscellaneous store retailers up 4.3%
- Y/y inflation (CPI) accelerated to a 2.9% pace in December; the core rate (less food and energy) was slightly higher at 3.2%
- Existing home were up 4.8% in November and are up 6.1% y/y; the median home price fell to \$406,100

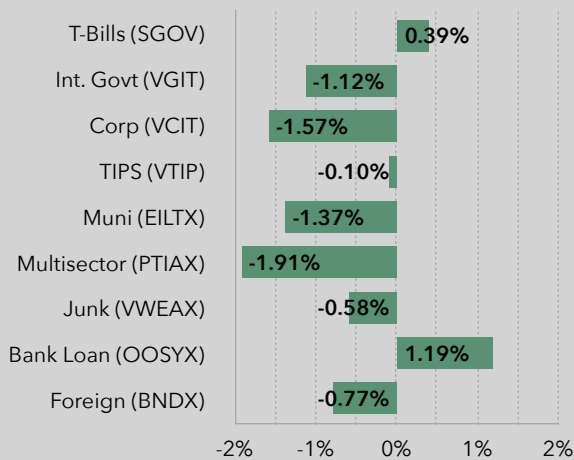
Stocks

December Returns



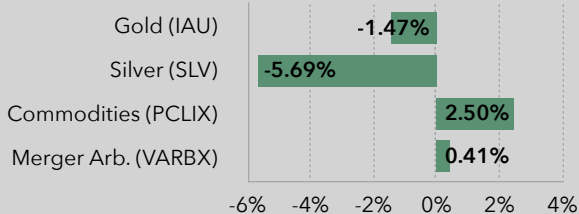
Bonds

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.

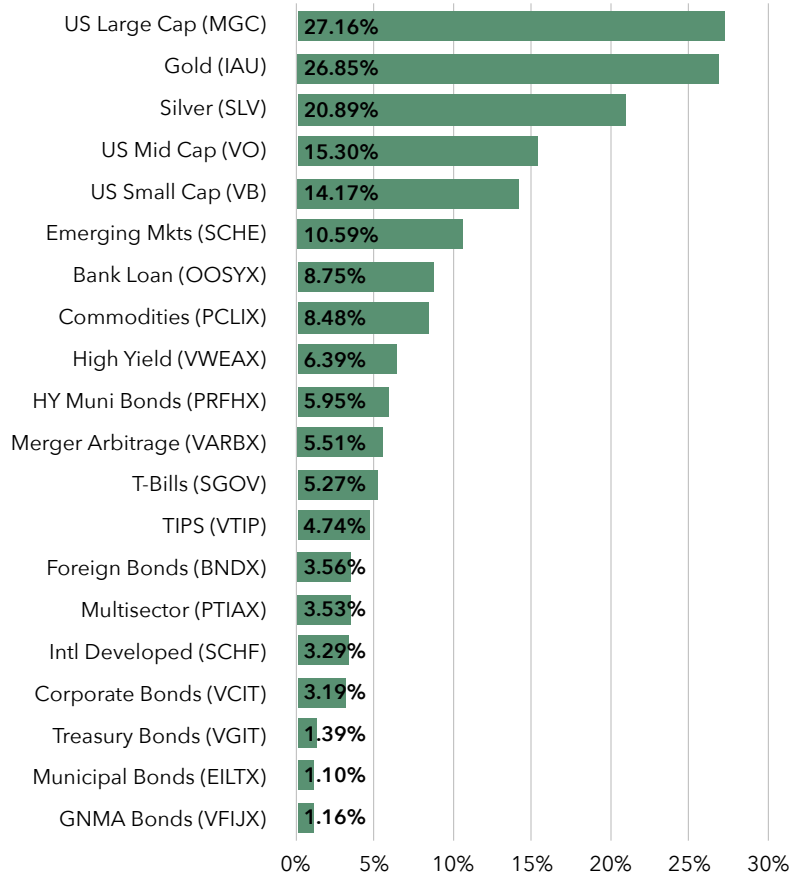
2024 is Done and Dusted

It was another win for US large cap stocks—mostly the “Magnificent 7” (mostly Nvidia, really)—as AI continued to fuel stock price momentum with the S&P 500 returning 23.31%. Small and mid cap stocks clocked in nice returns as well, but most of that came in the second half of the year when they outpaced large cap stocks leading up to and the immediate aftermath of the election. Emerging markets were next, posting a middling 10.59% (SCHE) that was helped by stimulus efforts in China. Lastly, international developed stocks lagged significantly as Europe struggled to get a handle on inflation and suffered from a strengthening dollar.

In bond land, our “t-bill and chill” strategy paid off as longer maturities contended with rising interest rates. Riskier credits performed well, which is to be expected given their higher correlation with the stock market.

Alternative investments did well for portfolios, with gold and silver rounding out the top three asset classes for the year. Broader commodities performed admirably, but didn’t shine nearly as bright as precious metals. Merger arbitrage (VARBX)—old faithful—is now 9-0 for positive performance years since inception.

2024 Investment Vehicle Performance



L.A. is Still Burning

This is when I usually just review my predictions from the past year and make new ones for this year. However, I would instead like to talk about the exciting topic of homeowner's insurance. The tragic fires in Pacific Palisades and Eaton are still burning as I type this, as well as a few smaller fires in other parts of Los Angeles County.

The average home in Pacific Palisades was \$3,482,314 according to the latest data from Zillow. I've seen loss estimates as high as \$250 - \$275 billion from AccuWeather, and that number just keeps rising. This tops hurricane Katrina, which had inflation-adjusted damages of around \$200 billion.

My general view towards insurance is to buy it to cover against catastrophic losses, but don't bother for things you can afford to pay for or replace. Cancer treatment? Yes. Dental cleaning? No. Driver liability and property damage? Yes. Broken windshield? No. House burning down? Surely...right?

Approximately 1 in 10 homes in Los Angeles County are uninsured, according to a LendingTree report. Why would they be willing to take such a huge risk? Well, maybe it's not really a choice.

On March 20, 2024, State Farm announced that it would stop renewing 30,000 property insurance policies and withdraw from offering commercial apartment policies altogether. This was largely in response to regulatory changes in California that the company deemed did not allow them to properly align insurance rates with risk. In fact, seven of the 12 largest insurers have paused writing new policies since 2023. In Pacific Palisades, more than 1,600 policies weren't renewed. According to data from AM Best, home insurance was unprofitable in 18 states in 2023.

If you can't get private insurance, the state of California has the FAIR Plan, which provides basic fire-only coverage. It costs an average of \$3,200 per year. This is significantly higher than traditional homeowners insurance due to its focus on high-risk areas for fire.

Now \$3,200 might not seem like much to someone who can afford a \$3.5 million home, but let's imagine they actually can't. Let's instead think of the person who bought their house in the 70's for \$50,000. They have lived in it ever since and are now retired, and despite their property being worth millions now, they don't really have any wealth outside of their home. They have a hard enough time covering their property tax bill every year. The mortgage is long paid off so they aren't required to have insurance. It might be understandable that they really can't afford the extra expense.

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					●

Or let's go the other way and imagine someone who is rather wealthy. According to NBC News, some homeowners in California might pay "upward of \$40,000 a year to insure their properties." Let's say someone owns a \$3.5 million house, but the majority of that value—perhaps 60-80% in Pacific Palisades—is the land. So your home replacement cost is maybe only \$1 million, not \$3.5 million. And let's say that person has \$10 million or more in liquid assets outside their home. You could make an argument in this case for not bothering with fire insurance, as it wouldn't ruin them. You don't have to spend money remodeling your kitchen and bathrooms every ten years...you just wait for the house to burn down.

Just to be clear, I'm not telling you to cancel your homeowner's insurance. I'm just saying there are circumstances where it weirdly might make sense.

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Binge Box

Rogue Heroes (Prime/MGM+)

"Rogue Heroes" on MGM+ is an exhilarating dive into the origins of the British SAS during WWII. This series, adapted from Ben Macintyre's book, blends historical drama with a rebellious spirit, delivering a narrative that's wild and engaging. It's full of exciting action and a fair amount of dark humor. A great cast plays the flawed characters that battle the Axis forces in northern Africa in their own creative ways. I binged the first season in just a couple of days. I haven't had a chance to watch the second season yet, but it just dropped this week.

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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