



June 9, 2017

The Top-Down

J.P. Morgan was out this week with the view that the current [lack of volatility](#) is due to the unusually low level of economic surprises. Why worry when you are adding [\\$2.35 billion](#) in wealth per quarter?

Evidence continues to build that the [capitulation trade](#) is very much in effect as skeptical bulls are being drawn in and forced to participate at the risk of lagging the market, especially in technology. At the same time [Bill Gross](#) and [Paul Singer](#) are raising red flags.

Close confidant of the President, and founder of Colony Capital, Tom Barrack was on the record this week saying that Trump's Tweeting [makes everyone crazy](#).

Bridgewater founder and CEO Ray Dalio also [shared his view](#) that President Trump's tendency towards conflict over harmony is "harming to his presidency and its effects on most of us." He opined back in April that he was worried about what the [next downturn](#) looks like even though current prices look "about right". [Full interview](#) from Business Insider that is well worth watching.

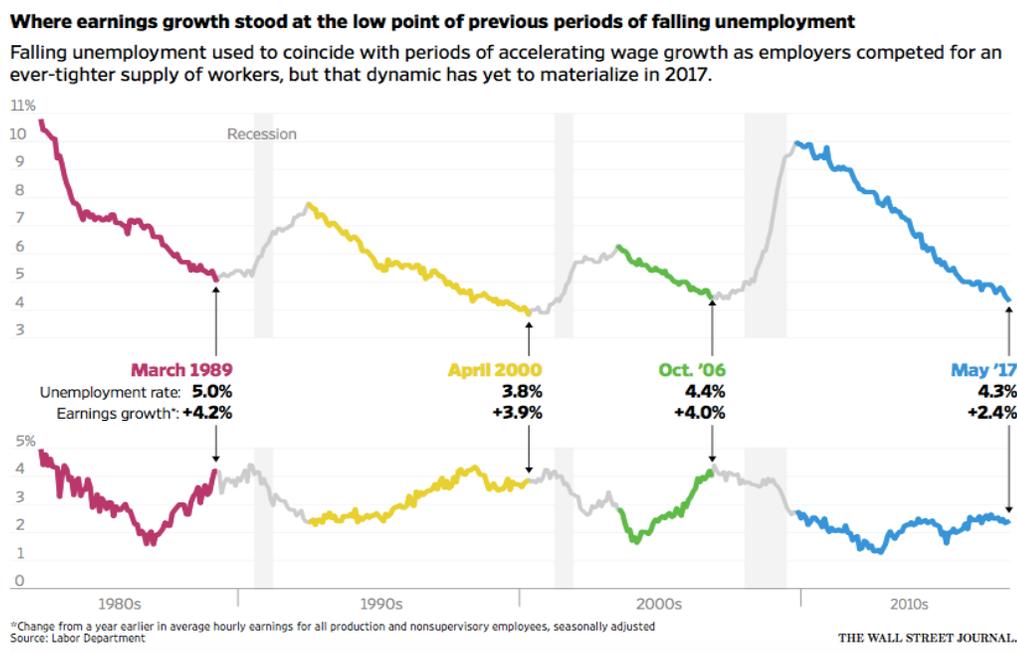
Stillwater View: At \$160 billion, Ray Dalio's hedge fund is the biggest in the world. Not bad for a man who started it from his kitchen table. Having said that, you could run \$1.60 and still observe that the Trump brand of management comes with a certain degree of risk. James Comey was [General Counsel](#) at Bridgewater for three years.

All the charts from last week's May employment report [worth the print](#). Electronic or otherwise.

Stillwater View: With [unemployment hitting new lows](#), earnings growth strong and the broad markets acting very resilient, why then are so many commenting about the next recession? Because ["while history does not repeat itself, it often rhymes."](#)

The last three recessions started within twelve to twenty-four months of employment bottoming. The main difference this time is that wage growth (2.5%) is barely outpacing inflation (2.0%), and that

is allowing the Federal Reserve to chart the “data dependent, cautious approach” they are currently set on.



For a full account of all economic data use [The Economic Calendar - Bloomberg](#)

The Bottom-Up

The Nordstrom family is considering a plan to [take the company private](#) and restructure the business in an environment where progress is not measured in 90 day increments. Both Neiman-Marcus and J.Crew went this route and have yet to successfully emerge. In related news, the tectonic shift in retail has [claimed Mickey Drexler](#) as he stepped down on Monday from his CEO position at J.Crew after 15 years with the company.

On Sunday, a day not usually reserved for corporate releases, Herbalife announced that earnings [would be less](#) than the street expects as it shifts its business model to be compliant with the Federal Trade Commission. Bill Ackman jumped on this as [evidence](#) that the change from multi-level-marketing to a traditional sales model will be challenging.

Morgan Stanley auto analyst Adam Jones commented on Thursday that there would be an [“unprecedented buyer’s strike”](#) in autos. Taking down auto retailers and retail parts that day. Meanwhile, Elon Musk and [Tesla](#) continues to confound short sellers...with a vengeance.

The oil market came [unhinged](#) on Wednesday when inventories rose more than expected. The oil service sector took the brunt of the hit with single day losses of more than 10% in companies with higher exposure to oil sands and deep-water, where breakeven is higher than in places like the [Permian Basin](#) in Texas.

Stillwater View: Negative on Herbalife and CarMax.

Up and Down Wall Street

John Paulson is now managing a [fraction of the outside money](#) he once did. The good news for Mr. Paulson is that \$6 billion of the \$8 billion left is his own.

Quants 101- Two weeks ago *The Wall Street Journal* ran a series on how the [quants run Wall Street](#). It touched on many of the reasons the landscape has changed. A distilled version of where quants fit on the spectrum.

The Pure Quants – This is the domain of the computer scientists and mathematician. The apex predator in this world is [Renaissance Technologies](#), a money-making machine like no other. A pure quant looks to code writing and processing power to sift out noisy signals leaving only tradeable ones. Bringing a fundamental opinion to the table won't get you in the door, let alone down the driveway.

The Factor Quants – Based on the work of [Gene Fama and Ken French](#), factor quants are also not interested in the competitive positioning of companies and believe that markets are inherently efficient discounters of information. They looked instead at very long series of data for evidence of factors that lead to outperformance over time.

David Booth, a student of Fama, commercialized his work and created [Dimensional Funds](#). Now a \$450 billion asset manager, DFA as its known, changed the investment advisory business and created the [smart beta \(r\)evolution](#), as Jeff Sherman of DoubleLine calls it. In 2008 Mr. Booth [committed \\$300 million](#) to the University of Chicago School of Business. Referred to now simply as “Booth”.

The Quantamentalists – This group's foundation is fundamental stock picking and over time they have applied [quantitative data to enhance decision making](#). In the late 1990's, the firm I was with at the time was pitched by an equity research team based in Silicon Valley. With much enthusiasm, the semiconductor analyst told us he could tell how good or bad business was at Intel by the cars in the parking lot. Today that kind of [data intelligence](#) is produced through satellite images and by drilling into traffic patterns.

Stillwater View: Of the three, the quantamentalists have the most to prove. The data they use has the highest risk of becoming a commodity and so far the overall results have been less than impressive.

Diversions

On a week that had Russia front and center, Ronald Reagan tells his [favorite old school Soviet Union jokes](#) and the people who brought you the YETI cooler bring you the [Kamchatka steelhead](#).

Summer reading: Admiral William McRaven and his book, *Make Your Bed: Little Things That Can Change Your Life...and Maybe the World*. This is an adaptation of his popular 2014 [speech](#) at the University of Texas commencement ceremony. Available on [Amazon](#) and [iTunes](#). I know three boys with a last name that ends in “ski” who will be receiving copies.

And where did the Dodger’s get their name? From the early days in Brooklyn when fans would dodge trolley cars on the way to the ballpark. The [Trolley Dodgers](#) first made headlines in 1865, eighty-eight years before they moved to Los Angeles.

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