



The Top-Down

The Labor Department released the October jobs number this morning and hurricane related weakness proved to be transitory as the economy added 261,000 jobs last month. This was below the consensus of 310,000 additions. Bloomberg has who’s hiring in America – and who’s not.

On Monday, the Conference Board reported consumer-confidence in October has surged to the highest level in 17 years.

October Consumer Confidence



Source: The WSJ and Conference Board

At the same time, the American Psychological Association reported “Americans are Officially Freaking Out”, as a full two-thirds of those amongst us “consider this to be the lowest point in our nation’s political history that they can remember.” A Washington Post-ABC poll put a cherry on top of the anxiety pie when it found that found 49% think the president has committed a crime.

Edvard Munch’s “The Scream”



Source: The American Reader

President Trump nominated Jerome “Jay” Powell to fill the Fed Chairman role when Janet Yellen’s term expires in January. The market views Powell much as it does the current chair, doveish on rates with a strong desire for a gradual unwind of the Fed’s balance sheet. One strategist called Powell “the Republican version of Yellen”.

Mr. Powell also understands the intricacies of corporate finance, due to his experience working inside the walls of the Carlyle Group. *The Washington Post* points out that he will be the wealthiest Fed Chair since 1940. Mohamad El-Erian, the chief economic adviser at Allianz, calls Powell a “wise choice that will be welcomed by markets.” The *New York Times* provides his profile.

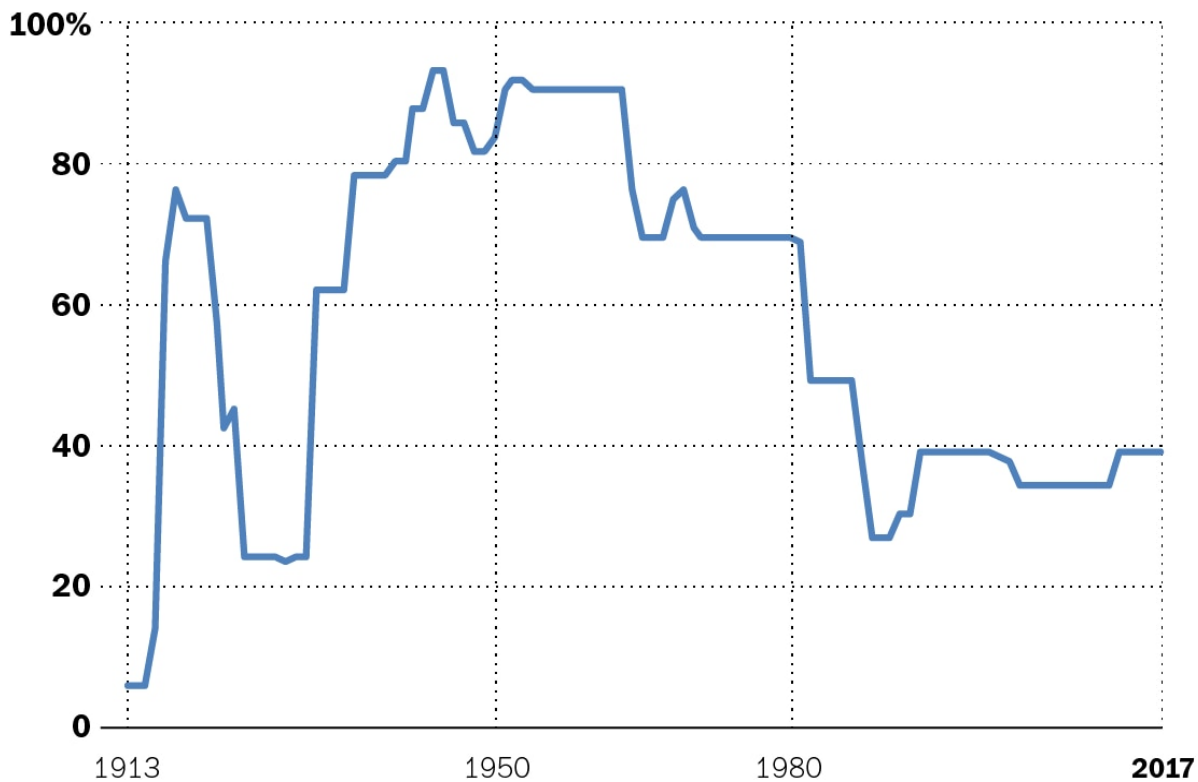
Federal Reserve Chairman Nominee Jerome “Jay” Powell



Source: The Washington Post

The Republican tax bill was released on Thursday and the market yawned, having already rallied last month in anticipation. House Speaker Paul Ryan introduced the bill with a backdrop of “middle-class” families. As the Speaker pointed out, half of the middle class are living paycheck to paycheck, and the other half are one missed pay stub away from the same. Speaker Ryan quoted \$1,182 as the average annual savings an American middle-class family of four can expect from the bill.

Highest Marginal Income Tax Rate

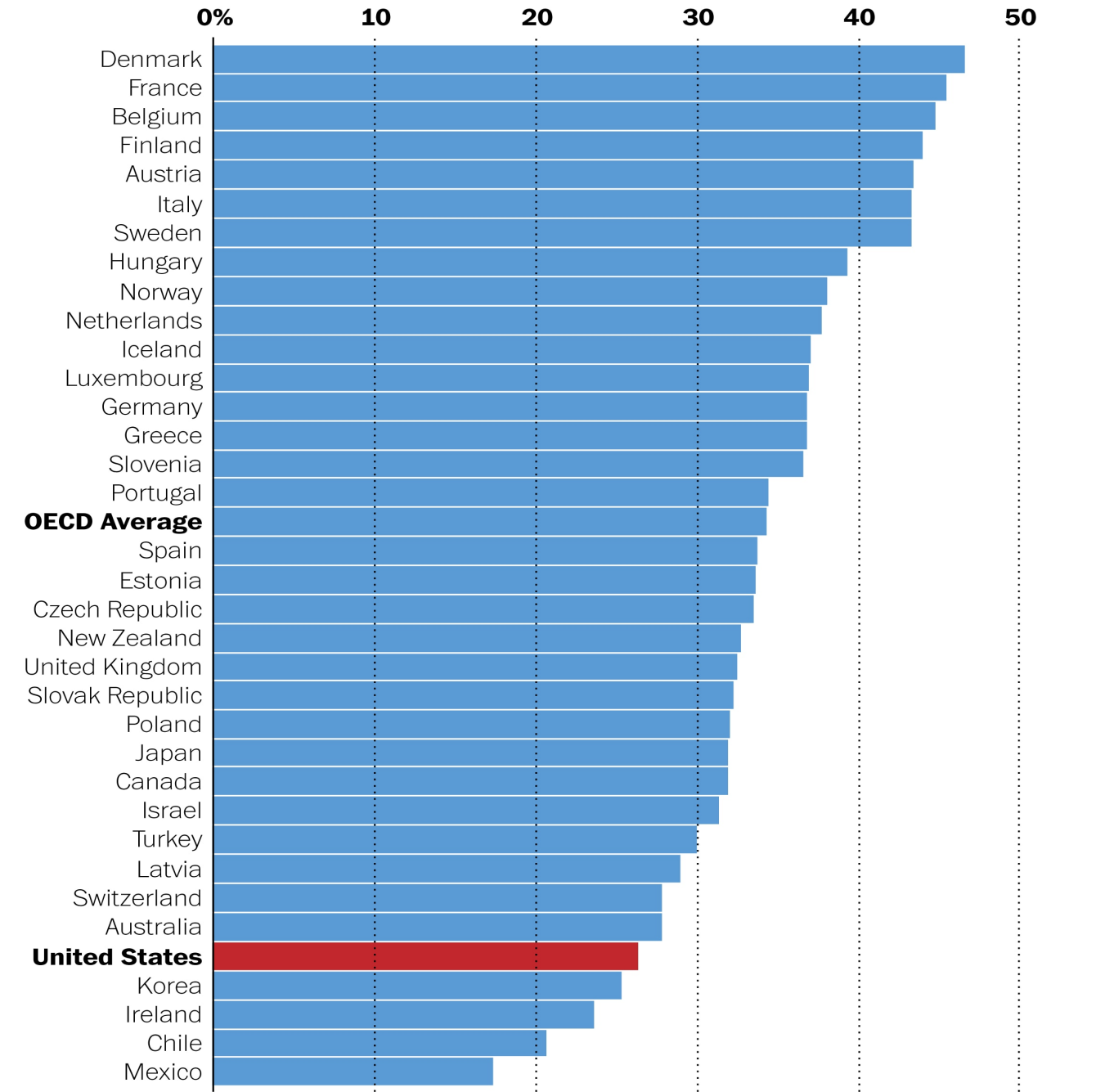


Source: Tax Policy Center & the Washington Post

Homebuilders sold off on the news that the mortgage interest deduction would be cut in half. Tesla also took a further hit, as a \$7,500 electric-vehicle credit will go away immediately if the plan is approved as written.

Bloomberg, The Washington Post and The Wall Street Journal all provided deep dives on what is in the “Tax Cuts and Jobs Act” and what this means for you. Next week, expect a review of the proposed changes in corporate rates. While it may not feel like it on April 15th, Americans get off relatively easy when compared to the rest of the world.

Total Tax Revenue as a Percentage of GDP



Source: OECD and The Washington Post

Goldman Sachs CEO Lloyd Blankfein provided his opinion that with the economy at near full employment and GDP growing 3%, now isn't the best time to introduce tax-cut stimulus. The risk in doing so, is that inflation will emerge faster than the market anticipates.

The well-respected Daniel Pinto, head of investment banking at J.P. Morgan also worries that inflation could lead to the next correction. And when it comes, you can expect it to be "painful", as there is currently little risk priced into the market.

AQR Capital Management founder, Cliff Asness, one of Wall Street's deans of quant investing, was out this week saying that investors should expect lower returns going forward as "more expensive markets lead to lower return expectations".

AQR Founder Cliff Asness



Source: Pension & Investments

His comments at the Evidence-Based Investing Conference included his view that a balanced stock and bond portfolio should be expected to return only 2% going forward. But he cautioned not to use valuation as a market timing or short selling strategy as "valuation of markets is a disastrous market timing tool and a super weak strategy". AQR stands for Applied Quantitative Research. The firm manages over \$80 billion.

Stillwater View: Cliff Asness is one of the great minds on Wall Street. His work is academically inspired, money making, and available to the investing public through liquid mutual funds. He did pioneering work on momentum investing and identified it as a persistent factor that can be exploited. A deeper discussion of Cliff Asness and momentum will be the subject of next week's edition of "This Week in the Markets".

Annualized Return of Momentum 'Winners' versus 'Losers'



Source: BlackRock

On All Hallows Eve, *Bloomberg* provided twelve charts that should scare you. They included the explosion of levered VIX ETFs, the lack of fear causing fear, Fed policy being too loose for too long, U.S. savings rates headed to 2007 levels, bond yields too low for global growth, the parabolic rally in Bitcoin and the fact that yields on risky assets in Europe are lower than low risk U.S. Treasuries.

But the best of all was from Peter Tchir at Academy Securities who posted a chart with nothing on it. Literally nothing! He wrote, “It scares me that I don’t have a ‘scary’ chart. Relatively few things seem concerning right now AND those things that do seem concerning – low volatility, rising treasury yields, low volumes, etc’ – have all been around for some time and have not led to anything bad, so it is hard to treat them as scary.”

Peter Tchir’s Scary Chart

Nothing to Fear
...and that's scary

Nov 2016 Dec Jan Feb Mar Apr May 2017 Jun Jul Aug Sep Oct

Source: Peter Tchir/Bloomberg

Bloomberg

Source: Bloomberg

The Bottom-Up

There is a bear market in home delivered pizza, as Papa John's is placing the blame on declining ratings for NFL games as the reason the company is currently struggling. CEO John Schnatter further remarked that the current controversy surrounding the national anthem "should have been nipped in the bud a year and a half ago." Frozen pizza competitor DiGiorno wasn't afraid to use the news as a chance to troll Papa John's on Twitter.



Source: Twitter

Stillwater View: As they say, there is no such thing as a bad pizza.

In what should have been a surprise to no one, Apple exceeded Wall Street's expectations when it released earnings last night. CNBC's Jim Cramer calls this one of the "greatest blowouts" he has ever seen while Larry McDonald, who writes that the Bear Trap report, calls the stock a "screaming sell".

Stillwater View: In theory, this type of divergence in opinion is what makes a market. Best of luck, Larry.

The iPhone X is available in stores today, assuming there is inventory. Early reviews are favorable. Apple co-founder Steve Wozniak isn't picking one up, at least not yet. Giving the X the distinction of being the first iPhone he didn't buy on day one.

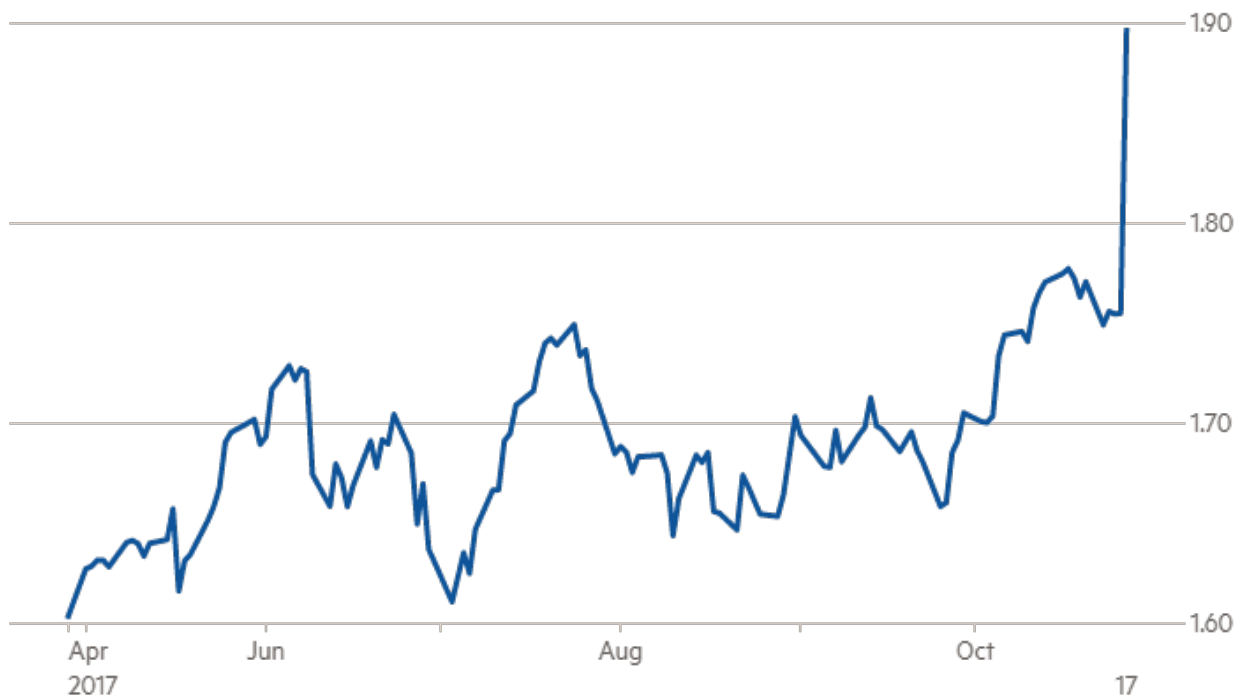
The iPhoneX Available Today



Source: Apple

Last Friday was a bellwether day for an already bellwether technology sector when the three horsemen; Alphabet, Amazon and Microsoft, added \$144 billion to their combined market capitalization in a single day. This move followed quarterly reports that included what investors love most right now, "stronger than expected earnings". Cheap valuation, not so much.

Combined Market Capitalization of Alphabet, Amazon and Microsoft in Trillions



Source: The Financial Times

To put this in perspective, in a single day GOOG, AMZN & MSFT added one of these to their collective market value.

- 1) IBM
- 2) Pepsi
- 3) Merck
- 4) Disney
- 5) 1.5 Goldman Sachs
- 6) Ford & General Motors with \$44 billion cash left over
- 7) Caterpillar and John Deere with \$22 billion cash left over
- 8) The entire domestic airline sector

Stillwater View: After warming up for the 1988 all-star game three-point contest Larry Bird was feeling it. So much so, that he looked around at the other players including Michael Jordan, Isiah Thomas, and Magic Johnson, and then proceeded to ask, “Now, who’s playing for second?”

Larry Bird



Source: NBA

In today's market, Facebook, Amazon, Apple, Google and Microsoft are "Larry the Legend". Those five stocks accounted for half of the 3% rise in the S&P 500 during October. That's right, 1% of the companies in the S&P 500 contributed 50% of the gain last month.

Back in June the New York Times penned a piece entitled "Five Big Tech Stocks Build Market Euphoria, and Jitters". A short five months later the jitters are being felt are by everyone from retail investors to active mutual fund managers who are underweight the stocks. The risk of missing out has fully taken over.

The Five That Have Led the Market Higher



Source: TalkMarkets

Over in the rest of the market, traditional harbors of safety and ballast are being sold off. Consumer staples have traded down seemingly every day since Proctor & Gamble reported weak results in late September. The company said there was unexplainable softness in the low-end consumer.

Pharmaceutical stocks have also taken it on the chin. Getting sold on growth concerns with generic producers feeling the extra heat as lawmakers look at the possibility that they colluded on pricing. Merck was a standout underperformer of the large cap group. Trading down 15% on a delayed rollout of their blockbuster lung cancer drug Keytruda in Europe.

And finally, there is poor old General Electric. The company's stock was down 16% last month and 36% on the year. Cash flow and profit weakness in power, oil, and transportation have put the previously steady dividend at risk.

Bloomberg Gadfly columnist Brooke Sutherland writes that shareholders should buckle up for a long and bumpy ride. As Warren Buffett says, "If you don't kick a man when he is down, when are you going to kick him?"

General Electric 12-Month Stock Price



Source: NASDAQ

Stillwater View: This is certainly not your father’s Dow Jones Industrial Average. Or even yours from five years ago. Past bastions of safety are getting put out to pasture as new sheriffs, with better growth, defensible moats and cash rich balance sheets are the new standard.

Dow Jones Industrial Average (DIA) 12-Month Performance



Source: NASDAQ

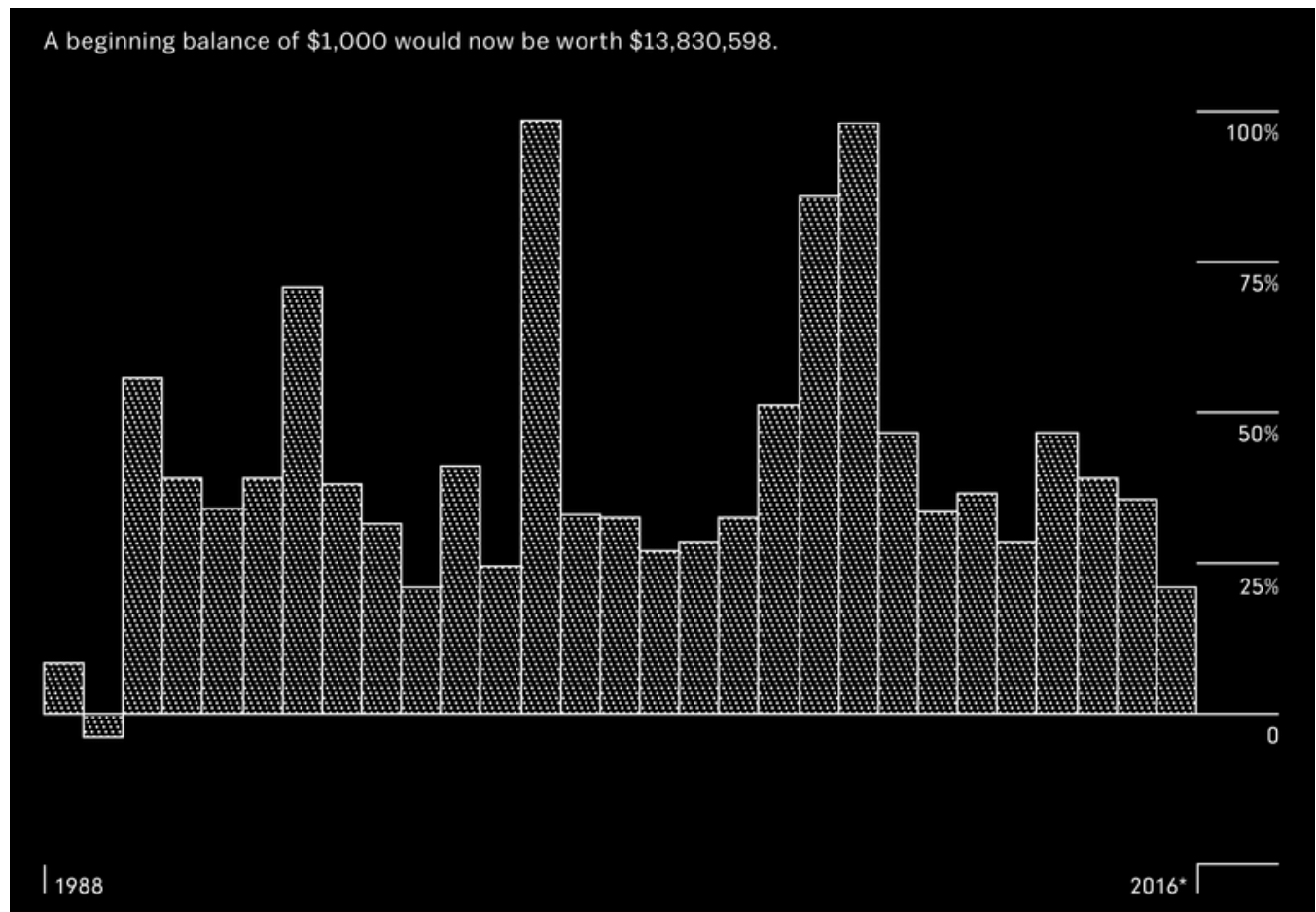
Up and Down Wall Street

Renaissance Technologies co-CEO, Robert Mercer, stepped down at the age of 71 on Thursday. Mercer also announced that he is selling his stake in Breitbart News to his daughters for “personal

reasons". His letter to employees of the \$50 billion quant hedge fund was widely read on Wall Street.

The performance of the Renaissance Medallion Fund is the stuff of legend. As the chart below points out, \$1,000 invested in Medallion in 1988 would be worth \$13,830,598 as of June last year. *Bloomberg* provided a glimpse into the magic black box in the fall of 2016.

Medallion Fund Annual Returns Since Inception



Source: Bloomberg

Citadel founder Ken Griffin made charitable news this week by donating \$125 million to the University of Chicago economics department. Some found the irony thick that a man who made his fortune exploiting inefficiencies in the market just donated to the institution that put the efficient market theory on the map.

He started his first convertible arbitrage hedge fund in 1987 with \$265,000 and ran it out of his Harvard dorm room. In 1990, Griffin founded Citadel with \$4.6 million. Eight years later he had \$1 billion under management and 100 employees. Ken now has a net worth of over \$8 billion.

The University of Chicago with “Second City” in the Background

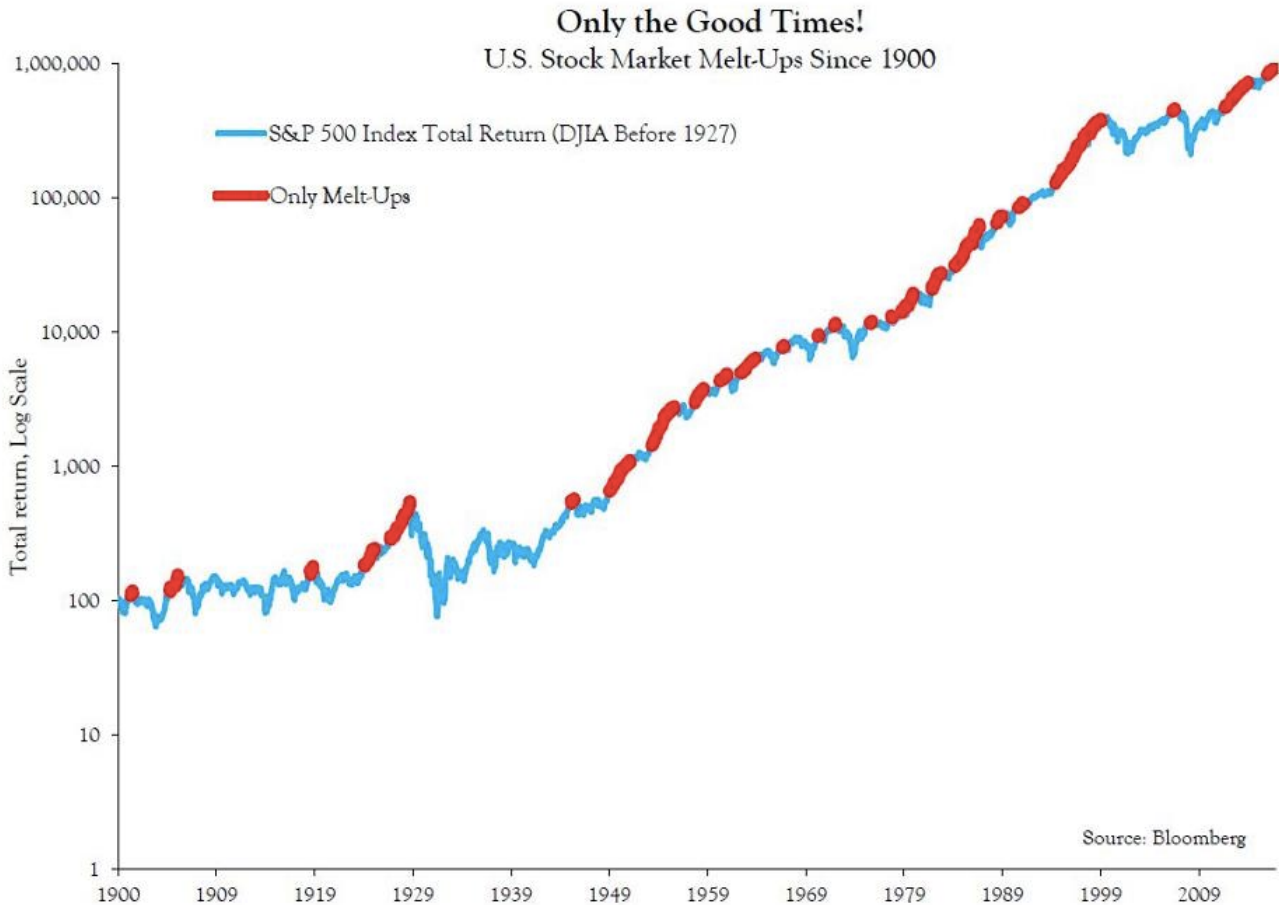


Source: The University of Chicago

Stillwater View: As the Aussies would say, “Good on Ya, Ken!”. And for those wondering, the name “Second City” comes from A.J. Liebling’s 1952 book ‘Chicago: The Second City’. Chicago was second, in his mind, to his native New York.

This market has confounded many, and made geniuses out of even more. Forbes contributor Vincent Delauard, a global macro strategist penned a piece entitled “Melt-Up, FOMO And Other Climaxes”. In it he takes a quantitative look back at past frenzies, the criteria that defines them and where we are in the current cycle. His sobering conclusion is that the melt-up has already happened.

The History of the Seventy-Seven Melt-Ups Since 1900



Source: INTL FCStone

Diversions

Congratulations to the Houston Astros for winning the first world series in franchise history. The team went up early in game 7 at Dodger Stadium and never looked back. Regardless of outcome, it was a great series to watch. The Houston Chronicle provided a list of all the free fried food and furniture local residents could receive in the hours and days that followed the win.

Front Page of the Houston Chronicle



CHAMPS!



Source: The Houston Chronicle

Last Saturday, *The Weekend Wall Street Journal* included “101 Impressive Things You Should do Before You Die (At Age 101)”.

Number 32, “Buy a drink for the entire bar - hopefully on a mellow weeknight”, was successfully checked off my list on June 5th, 2004 at Trader Vic’s in Beverly Hills, California. And hope was not any part of the plan as that was a busy Saturday night.

Trader Vic’s Beverly Hills



101 Impressive Things You Should Do Before You Die (At Age 101)

1. Drive cross-country. Any country.
2. Run for local office. If it's not a good fit, you can always derail yourself with a public scandal.
3. Pet a cheetah. An old, slow, unhungry one.
4. Rank your neighborhood bakeries. Taste everything they bake. You know, because you're thorough.
5. Investigate a family mystery. If you solve it, keep the answer to yourself.
6. Go to a flea market in Paris and buy something redolent of the 1920s. Celebrate by downing a Pernod. Don't gag.
7. Ask a friend to scare you thoroughly when you'll least expect it. Forgive the friend within five years.
8. Wear armor. Someday Nike will make armor.
9. Learn to cook a dish you can claim to be famous for. Give it a plausibly famous name, such as "Mussels Arrivederci." OK, something better than that.

10. Sing while lounging atop a grand piano, but stop short of writhing.
11. Quit a terrible job. If you get fired before you summon the courage to quit, silently thank your terrible boss.
12. Every town has an outdated law. Break one.
13. Rescue a horribly named dog (e.g. Oreo, Flower, Piddles) and compassionately rename it. Then, inevitably, start adding “y” to the name (Hucky, Bethy, Watsony), making it horrible again.
14. Drive down an entire street backward, even if it’s a remote country lane.
15. Pick a book that you’ve lied about having read and read it. Unless it’s “Ulysses” or “Middlemarch.” Then you’re exempt.
16. Sleep outside and not in a tent. Possibly in a hammock.
17. Eat camel hump at a souk in Fez. Try, unsuccessfully, to determine how many Weight Watchers points a serving of camel hump is.
18. Catch a dozen fireflies. Release.
19. Appreciate the gift of “never having done hot yoga.” Some things cannot be unsmelled.
20. Attempt a cartwheel. To avoid injury, take care to avoid landing on your walker.
21. Emerge victorious from a battle of wills while milking a cow.
22. Wear a large and interesting hat.
23. Since haters of pumpkin spice now rival its defenders in number, decide once and for all where you stand.
24. Redecorate your least favorite room. Preferably one in your own home.
25. Do something you’re petrified of doing. See No. 56.
26. Teach a baby chimpanzee sign language. Take care not to teach him the word “insurrection.”
27. Try Biologique Recherche P50—the 1970 version—and deliberate: Is it really the best skin care product of all time?
28. Bluff, successfully, during a negotiation.
29. Jump off a becalmed sailboat into the Aegean Sea. Diving is showier.
30. With this Jonathan Franzen quote in mind, identify one of your recent insights: “When the event, the big change in your life, is simply an insight—Isn’t that a strange thing?”
31. Mentor someone, even if he or she didn’t ask you to.
32. Buy a round for the entire bar—preferably on a mellow weeknight.
33. Move to a place with bragging rights. A lighthouse would do.
34. Discover Copenhagen by having what many (including dispensers of Michelin stars) say will be the best meal of your life at Geranium.
35. Tame a squirrel.
36. Reintroduce yourself to the comfort that is corduroy.
37. Make friends on Facebook with someone with your name.
38. With eyes shut, spin a globe and point your finger. Then visit the destination. If your finger lands on a body of water, take a drink and try again. If your finger lands on a war zone, violently kick the globe across the room and try again. If you’d really rather just go to Australia, peek.
39. Buy a watch your grandson will be proud of. Or, for that matter, your gender-fluid granddaughter.
40. Crack the code.
41. If the 1960s meant something to you, and you’re in Hollywood, and you happen to need breakfast, go to the 101 Coffee Shop and order the waffles.
42. Swim with the turtles.

43. Swim with the elephants.
44. Swim with the dinosaurs, after collaborating with Elon Musk to build an ingenious, battery-powered time-travel machine.
45. Hide something valuable in your house or bury it in the backyard. Make a treasure map for future generations.
46. Call a family meeting to create a logo based on your family's strengths. Combative and chaotic can be considered strengths.
47. Challenge yourself culinarily: Roast a turkey, bake a cherry pie with a lattice crust, make french fries from scratch and whip up your own mayonnaise.
48. Confront your resistance, if you have any, to a clothing-optional setting.
49. Fly over Mt. Everest in a propeller plane.
50. Perfect the casual invite as in: "Just stay for dinner. C'mon, I need help with the salad."
51. Consider that "Robinson" is not a particularly Swiss-sounding name for a family.
52. Explore and improve your relationship to trees. Lean on one; nickname one; eat under one; plant one with a kid.
53. What message would you skywrite to a beloved? Whisper it to him or her instead.
54. Swim in a moat, as in Dodie Smith's 1948 novel "I Capture the Castle."
55. Make lists of things being done by people 20 years younger and 20 years older than you. Pick three from each and give them a shot.
56. Use a bidet.
57. Use a bidet correctly.
58. If you have a day to kill in downtown Detroit, experience at least two of the four floors of John K. King's used and rare bookstore. Engage the staff.
59. Write an impassioned letter to the editor. Get your facts straight.
60. Cross the Atlantic Ocean in a ship. Become briefly, violently seasick so that, once you gain your sea legs, you can enjoy being blissful and somewhat cocky.
61. Learn how to knit your own sweater. Okay, scarf. Okay, single mitten.
62. Cascades, Sunset Limited, Empire Builder: Pick a train route, a companion, and just go.
63. Peel out.
64. Have an actual potluck dinner. Themes are good: a color, a country, a decade. Avoid assignments—if there are seven desserts, there are seven desserts.
65. Take a nighttime boat ride down the Ganges in Varanasi, past the burning pyres
66. Experience the intense physical collaboration that is volleyball, either on grass, in a gym, or on a beach.
67. Have a photo of you and your family/spouse made into a 500-piece jigsaw puzzle and assemble it together. Don't overthink the psychological subtext of the teardown.
68. Experience both love and squalor, even if there is no Esme in your life.
69. Stop by your lonely-seeming neighbor's place and say "hello."
70. Use a porch properly: to people-watch; to read; to drink gin and Bitter Lemon; to have a directionless conversation. A stoop will do in a pinch.
71. Memorize at least one quotation. Our go-to comes from Katherine Mansfield (1888-1923), the New Zealand short-story writer: "Come, my unseen, my unknown, let us talk together."
72. Interview your mother to find out what her favorite recipe was as a child. Make it for her.
73. Ignore your abysmal record at matchmaking and try once again with those two people you just know would hit it off. If nothing else, you'll maintain your abysmal record at matchmaking.

74. Pour yourself a glass of Wild Turkey 101. As in 101 Proof.
75. Watch all eight hours and five minutes of Andy Warhol's movie "Empire," a continuous slow-motion shot of the top of the Empire State Building.
76. Accept that there is nothing you can do about the traffic.
77. When the opportunity comes along to take the second or third step in making a new friend, take it.
78. Go skinny-dipping under a moonlit sky. Choose a pool so as not to inadvertently re-enact the opening scene in "Jaws."
79. Finally get your due the way 102-year-old artist Carmen Herrera did at New York's Whitney Museum last year.
80. Attempt to skip double-Dutch.
81. When in Southern California, ignore your skepticism and hire an alternative healer to address your most persistent issue: an intimacy expert, an acupuncturist, a cranial sacral massage therapist, a psychic.
82. Adopt a fawn, as Audrey Hepburn did.
83. Climb the stairs in a building with 101 floors. Four such buildings exist, two in Dubai, naturally.
84. When you replace your kitchen appliances, resist the intense peer pressure to buy stainless steel ones. Somebody's got to take the lead.
85. Give a eulogy.
86. Spend time in a developing country, the kind of place where you need to bring Cipro.
87. Take measures to avoid becoming one of those people who, in their dotage, walks around town with a parrot on their shoulders, smiling broadly despite the fact that its claws are really digging into their flesh.
88. Record an iPhone video of yourself singing a love song and send it to your partner, even if you go off-tune. Cheesy suggestion: "Have I Told You Lately That I Love You?"
89. Go to a drive-in with homemade popcorn and watch a movie from the roof of a car. Even better with children.
90. Go see what all the fuss is about.
91. Sail a toy boat, available for rent, in New York's Central Park.
92. Ride a horse around the Egyptian pyramids. Once around is plenty.
93. Visit 101 countries. Congratulations, you're eligible to join the 1,400 members of the Travelers' Century Club.
94. Purge the word "semblance" from your vocabulary. Also: "unprecedented."
95. If at all possible, have a house built to your specifications, tower room and all.
96. Buy a leather jacket. Over the course of the next 20 years, break it in.
97. Look at the moon and consider that Virginia Woolf, Harry Houdini and Jesus all looked at the same moon.
98. Outwit a bully.
99. One summer, simply lift all the carpets off your floors so you feel like you're vacationing in a Caribbean bungalow. Of course, if you have wall-to-wall carpet, you'll really need to put your back into it.
100. Make peace with your ex.
101. Dance with Maasai warriors in Kenya. Failing that, dance with aggressive retirees in Connecticut.



Source: The Wall Street Journal

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