Stillwater Capital - This Week in the Markets

[From The Editor](#)

Dear Readers,

This Week in the Markets relies on multiple sources to support what we consider to be a pretty good look around the world of finance on a weekly basis. As much as we can, we choose content that comes from open sources that do not require a subscription, although as time progresses, more and more fees continue to creep in.

As an example, much of *Bloomberg's* content was wide open three months ago, and now that world has changed. Access to premium content now goes for $9.95 per month. Sites such as *CNBC* and *Business Insider* were also free, and now they are offered in hybrid form where some content is free and others are branded Pro or Prime.

The point of all this, is not to say that our prices are headed higher. On the contrary, we've enjoyed providing This Week free of charge and plan to do so for the foreseeable future. We simply want to acknowledge that good original content sometimes comes at a modest price.

We will continue to provide as much as we can of the free stuff, just know that at some points along the way you may be asked to subscribe to some of the sub-content.

Many of you have communicated that *This Week in The Markets* is one of the better sources for market commentary. We certainly appreciate the feedback as it's written from a portfolio managers perspective.

We also want to acknowledge where our journalistic roots come from. Earlier in my life, I was lucky enough to have a father who wrote for the Knight-Ridder company at the *San Jose Mercury News*, and as a result, I spent many a Sunday afternoon hanging out in the press room with the writers.

For that experience I am forever grateful. Bob Goligoski now gets to bask in the glory of being once nominated for the Pulitzer Prize, and gets to hang his hat as a freelance ‘ski, travel and wine” writer. And yes, as the hip kids like to say, “that’s a real thing”.

The Silver Fox Still Running Strong

Source: Travel Watch

This week was a short one on Wall Street and the pavement between Northern and Southern California ran hot as we pushed forward on the business development front. And instead of sending out filler to meet our regular Friday morning deadline, we held the presses to produce something we felt was worth your time and effort to read.

Thank you for your continued readership.

Bryan Goligoski

The Top- Down

Well surprise, surprise, surprise. The May jobs number came in hot after President Trump foreshadowed things via a tweet an hour before the release. This is his relatively benign looking comment…

Donald J. Trump Verified account @realDonaldTrump

FollowFollow @realDonaldTrump

Looking forward to seeing the employment numbers at 8:30 this morning.

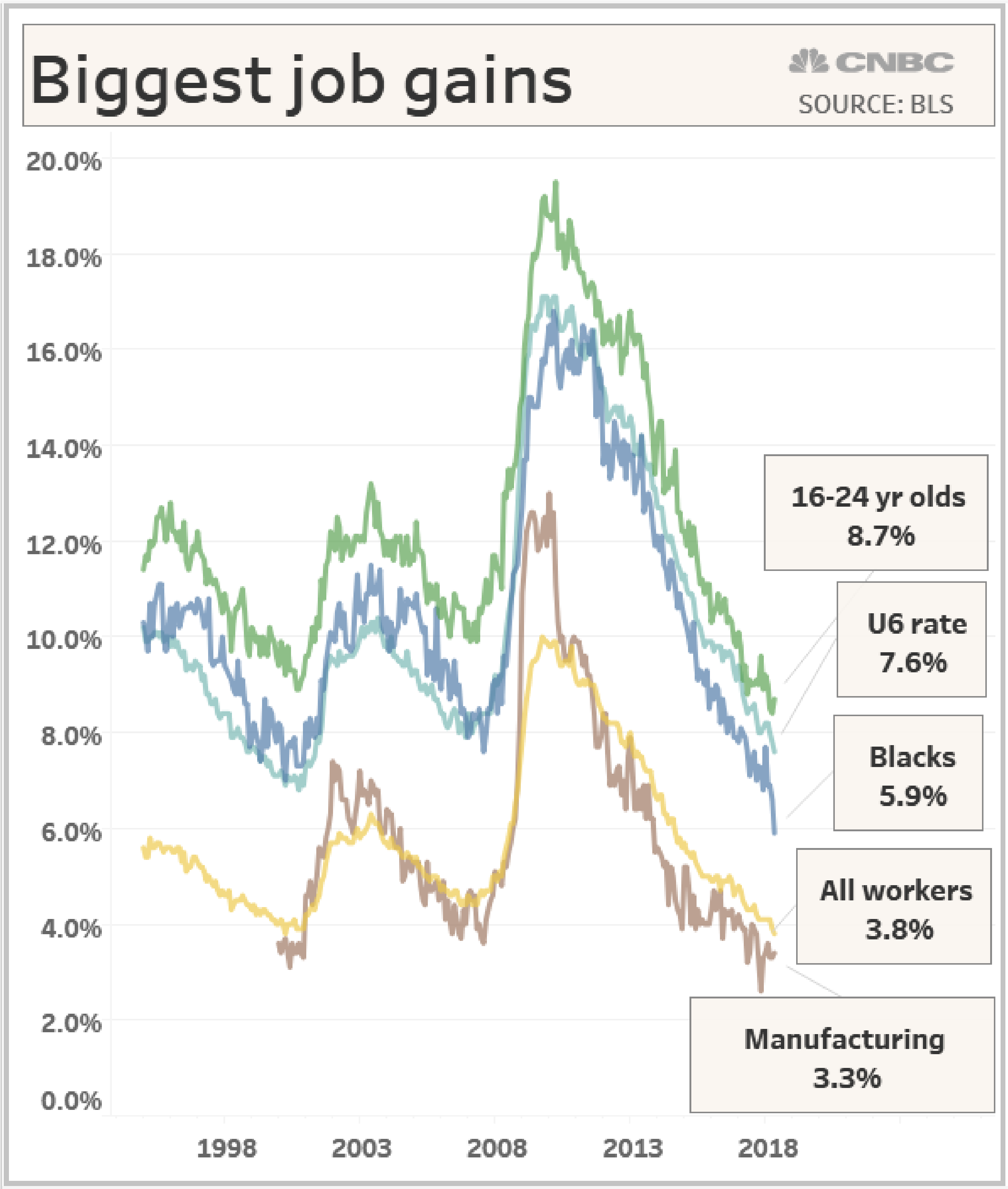
4:21 AM - 1 Jun 2018

It was interpreted by some as a release of material non-public information, especially given the thumbs up emoji imbedded in the tweet that was later removed. If nothing else, it certainly was unconventional.

Stillwater View: Love him, hate him, or be indifferent to him, there is no denying that Trump is re-writing the rules of engagement on the fly. And oh yeah, the summit with North Korea is back on.

Bloomberg provides the analysis of where the jobs are being created…and where they aren't. JP Morgan's Jaime Dimon chimed in that this economy has a long way to go and we are probably only in the 6^{th} inning. Meanwhile, CNBC ran a headline that read the U.S. economy was "unstoppable".

How Low Can Unemployment Go?



Source: CNBC & Bureau of Labor Statistics

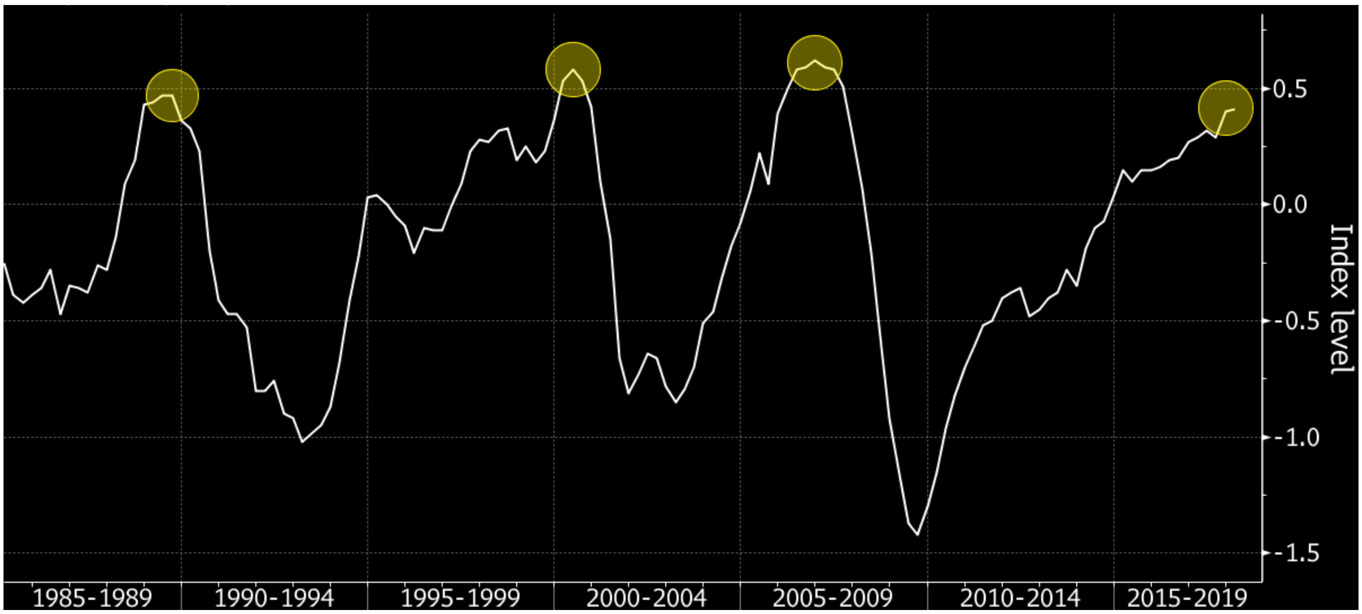
Stillwater View: Our economy does indeed appear to be in a pretty sweet spot right now. But if history is any judge, that can change in a hurry.

In 2007, then Treasury Secretary and former Goldman Sachs CEO, Hank Paulsen declared the global economy as the strongest he had ever seen. The Great Recession would start twelve months later.

"When afraid be greedy, when greedy be afraid." - Warren Buffett

From where Stillwater sits, the biggest risk at home is that hibernating inflation decides to wake up and rates on the ten-year head north of 3.5%...in a hurry.

Morgan Stanley Developed Market Cycle Indicator



Source: Bloomberg

While it was a short week in the markets at home, there were early fireworks abroad as Italy erupted on Monday when positioning inside parliament led to renewed fear that the European Union and the Euro currency may once again be at risk.

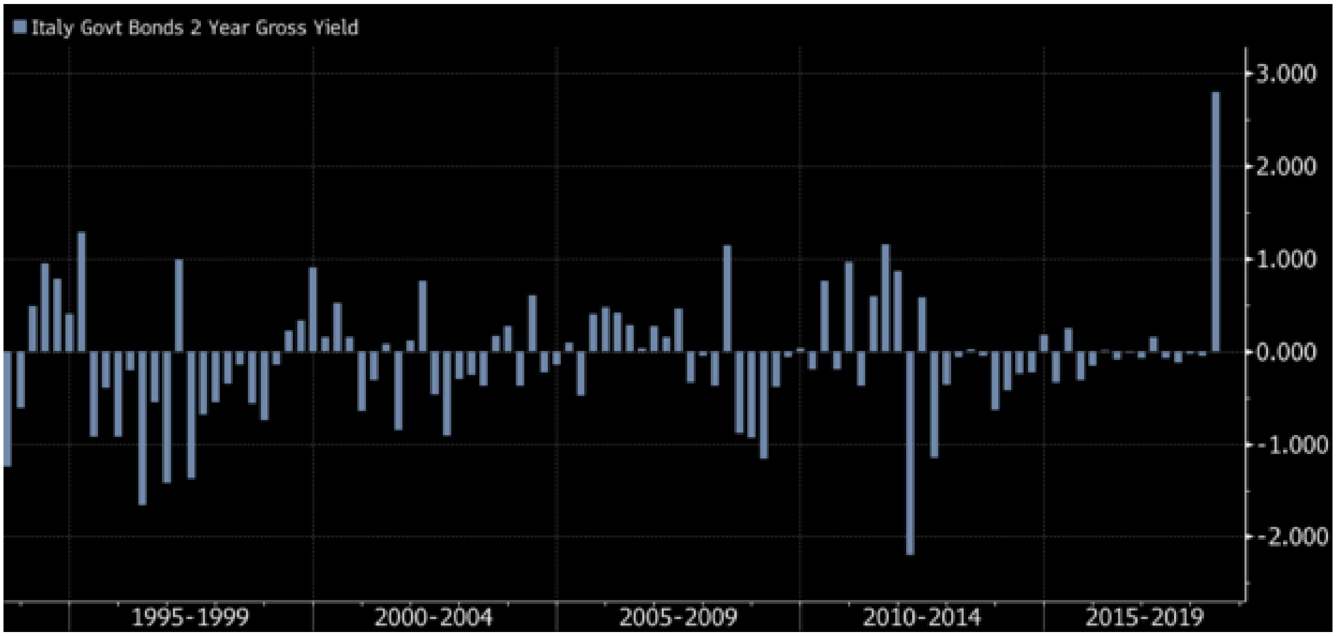
The last time we ran into a risk from the core of Europe was the summer and fall of 2011. It caused for one of the more serious bouts of market volatility with the S&P 500 being drawn down 18% from May to September.

The Summer & Fall S&P 500 Swoon of 2011

Source: Macrotrends

The spike in rates in Italian bonds caused a flight to safety around the globe, as the ten-year treasury dipped to 2.80% from a high of 3.19% the prior week.

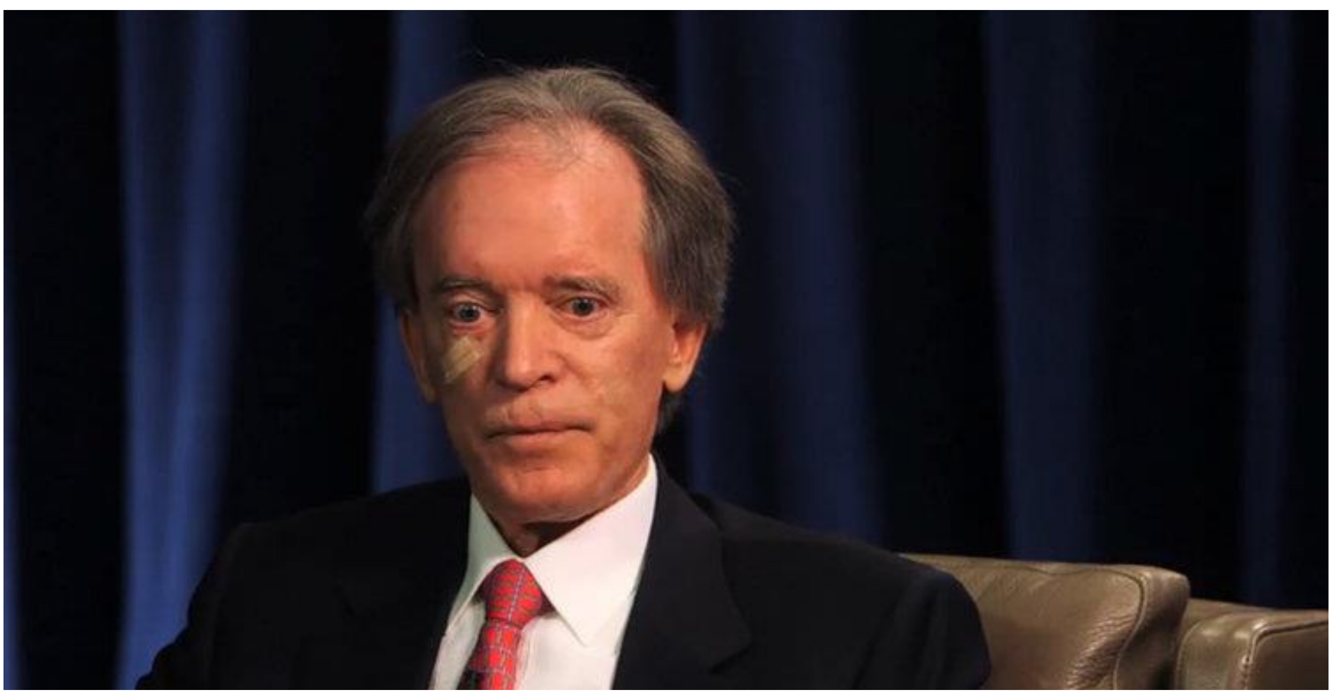
Unprecedented Move in Italian Yields



Source: Bloomberg

The move down in treasury yields rocked one time "Bond King" Bill Gross, as his Janus Henderson Global Unconstrained Bond Fund lost 3% in a single day, pulling the strategy down 5.9% on the year. Which is about as bad as it gets for a global bond strategy.

A Bruised "Bond King"



Source: Business Insider

The Bottom-Up

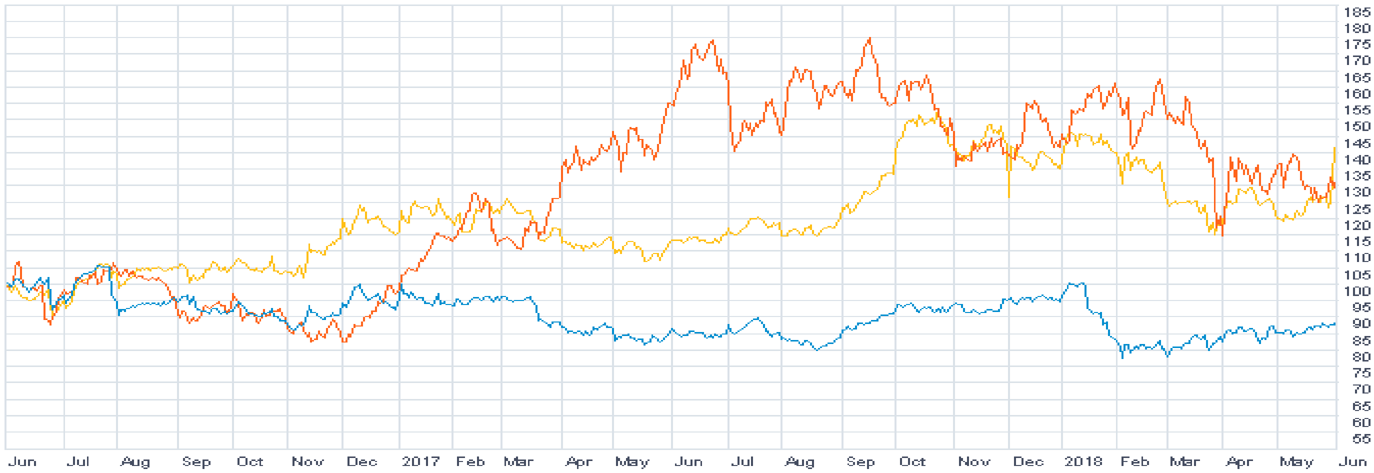
In a move that surprised the markets, General Motors announced on Thursday that Japan’s SoftBank would be investing $2.25 billion in the companies driverless car division. The group, G.M. Cruise Holdings, clearly wasn’t being appreciated by the market as the GM stock shot up 13% on the news. One analysis from Deutsche Bank had this investment valuing the business at 6x what the market was prior to the announcement.

G.M. Driverless Car in San Francisco

Source: The New York Times

Stillwater View: The firm has been short the shares of GM, Ford and Tesla for some time and continue to hold a negative view of the sector. Needless to say, it wasn’t a very pleasant Thursday to sit through.

Ford, General Motors, Tesla



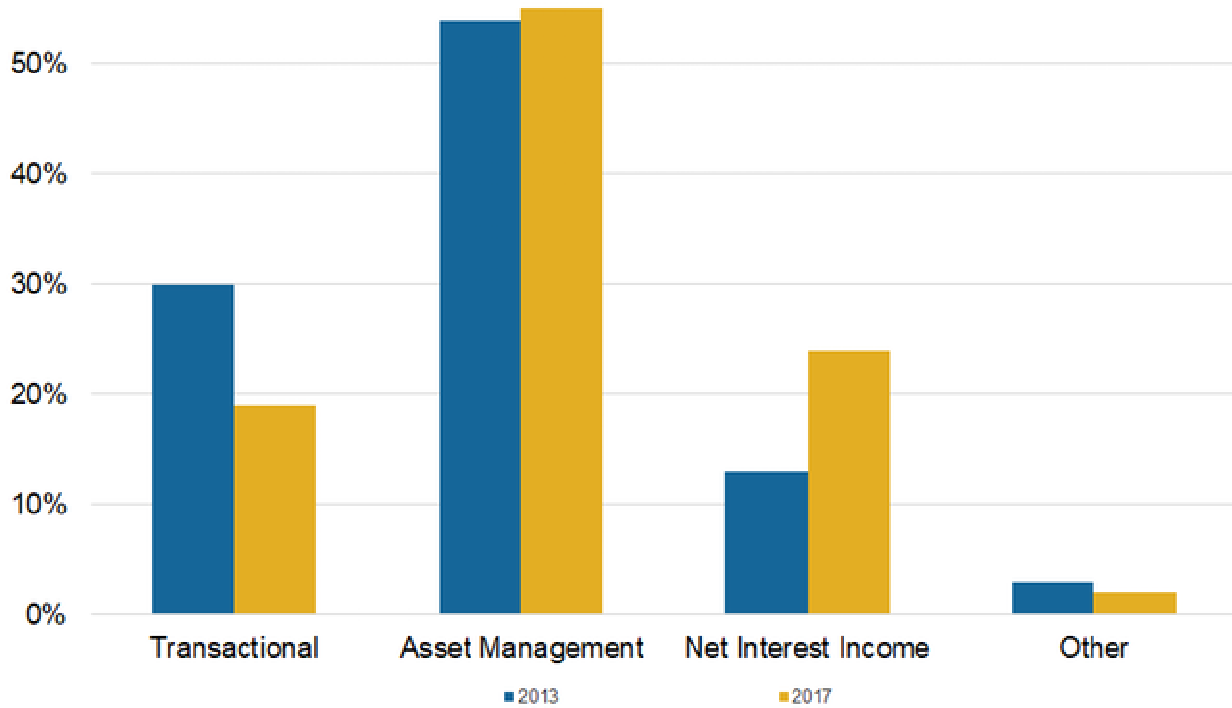
Source: Nasdaq

Up & Down Wall Street

News out of Morgan Stanley this week showed transaction levels were down among retail investors and that lower market levels will impact how much they can bill on client assets, had the stock selloff 5.7% on Wednesday. The biggest swoon in nearly two years, compounding the volatility of an already nervous market.

James Gorman's vision of a de-risked Morgan Stanley continues to come into focus as the stable wealth management business now generates 50% of profits. As Gorman famously said almost ten years ago, "Go ahead, start a hedge fund. Just don't do it on my balance sheet."

Morgan Stanley Revenue Mix De-Risked



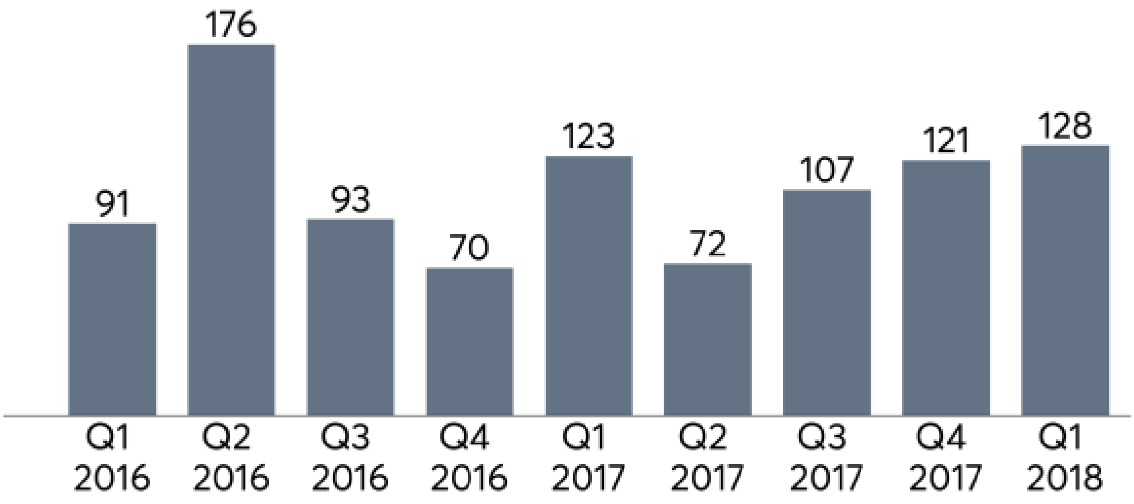
Source: Morgan Stanley

The wealth advisory business continues to evolve and grow on the back of rising markets, retirement needs, robo-advisors, and a desire by investment capital to tap into the stable cash flows of the annuity nature of the business.

Brokers continue to go the independent route, even as the Broker Protocol fades into the rearview mirror. The aforementioned Morgan Stanley exited last year.

The Protocol was put in place in 2004 as a way to minimize disputes between advisors looking to leave with their clients and big banks looking to set up walls to retain said assets. The accord allows exiting brokers the ability to take with them the name, address, and contact information of clients they are looking to keep.

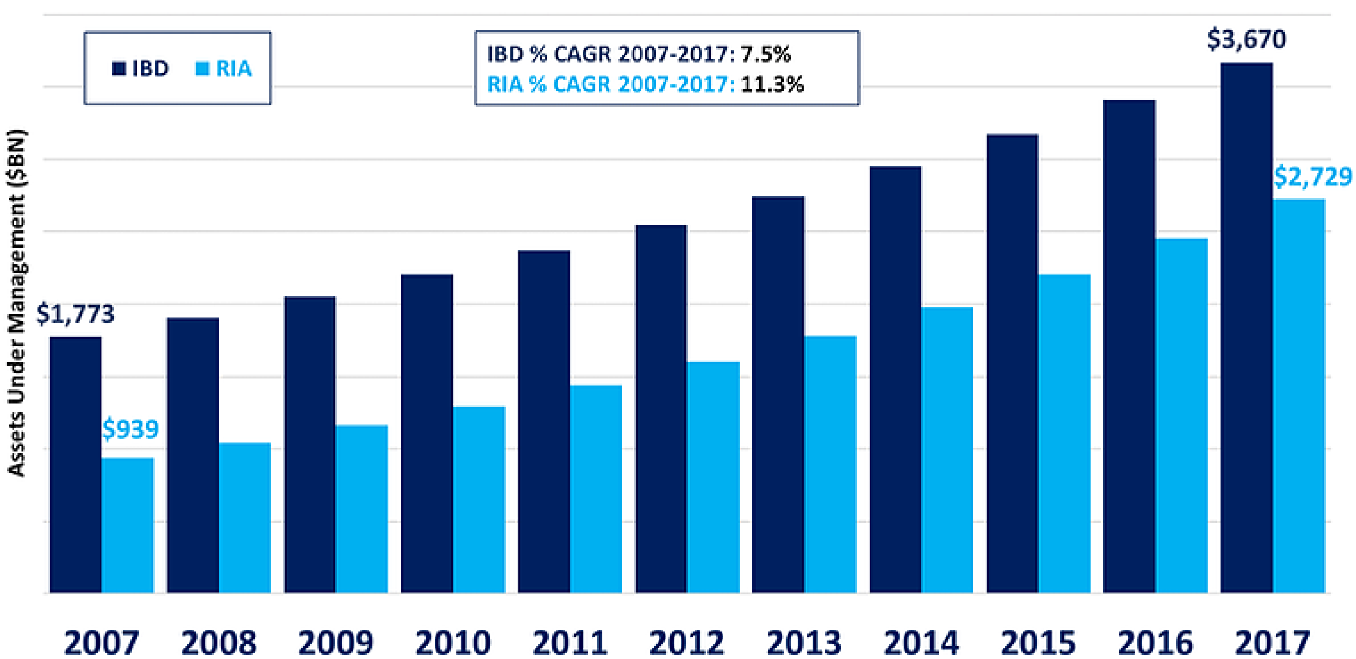
Brokers Continue to Breakaway



Source: ECHELON Partners

For those in the RIA and independent broker dealer business, ECHELON Partners is *the* investment banking authority. Their annual deal reports provide a great look into activity and asset growth.

The Smooth Ride for AUM Growth



Source: ECHELON

Stillwater View: Twenty years ago all of us hot shot young hedge fund managers though we had caught lightening in a bottle and were destined for greatness and fortune. While many did succeed, far more struggled.

For all of us who once looked down on the broker proletariat, I apologize. I apologize for all us bourgeoise, holier than though, young masters of the universe who thought we had it all figured out. Turns out you guys were onto something.

Next week we will dive deeper into the RIA side of Stillwater Capital and those of our partners at Canter Wealth, Balboa Wealth Partners, The Riviera Group and Axxcess Wealth.

Diversions

The NBA Finals are upon us and Game 1 did not disappoint. Unless of course you are a Cavs fan or J.R. Smith.

With the game tied and fellow Cavalier George Hill missing the back end of two free throws, the ball was quickly rebounded by Smith, but instead of going back up for the lay-in or foul he dribbled the ball out to half court.

The mistake cost the team the chance to win in regulation and they folded in overtime. Losing 114 to 124 to Golden State. J.R. would later say he though the game was over. He is getting paid $12.8 million this year to know better. Needless to say, the world wide web exploded with memes mocking the man. Game 2 is Sunday night at 9:00 pm eastern.

"J.R.…Whatareyoudoing?"

Source: Kansas City Star

After failing to sell for the $75 million original asking price, La Casa Pacifica is back on the market for $62.5 million. The home was the Western White House for President Richard Nixon. At 15,000 square feet the house is far from petite.

La Casa Pacifica

Source: Curbed

The home dwarfs the much smaller Rancho del Cielo, the ranch home of President Ronald Reagan.

Nestled in the mountains above Santa Barbara, the 600 acre ranch sported a residence that was just north of 1,300 square feet in size. Reagan spent 364 days of his eight year presidency at the ranch.

Rancho Del Cielo

Source: The Young America's Foundation

The ranch is now owned by the Young America's Foundation, a private organization that seeks to forward the vision of our 42^{nd} president.

Quite the horseman, Ronald Reagan rode English style until one of his campaign advisors told him that Western would play far better with the American people.

Speaking of horsemen, this week Polo Ralph Lauren turns 50. The iconic brand was founded by Ralph Lifshitz, who would change his last name to Lauren when he was 16 after enduring not so good natured ribbing. He began his career at Brooks Brothers designing neckties, and would soon hone his skills creating the style that made preppies of the 1980's look ever so cool. At least in their most WASP'ish opinion.

Basking in the Preppy Glow

Source: Ivy Style

To subscribe or unsubscribe to Stillwater Capital's "This Week in the Markets" please e-mail contact@stillcap.com.

DISCLOSURE: *Stillwater Capital, LLC is a Registered Investment Adviser. Advisory services are only offered to clients or prospective clients where Stillwater Capital, LLC and its representatives are properly licensed or exempt from licensure. This website is solely for informational purposes. Past performance is no guarantee of future returns. Investing involves risk and possible loss of principal capital. No advice may be rendered by Stillwater Capital, LLC unless a client service agreement is in place.*

Stillwater Capital, LLC provides links for your convenience to websites produced by other providers or industry related material. Accessing websites through links directs you away from our website. Stillwater Capital, LLC is not responsible for errors or omissions in the material on third party websites, and does not necessarily approve of or endorse the information provided. Users who gain access to third party websites may be subject to the copyright and other restrictions on use imposed *by those providers and assume responsibility and risk from use of those websites.*

General Notice to Users: While we appreciate your comments and feedback, please be aware that any form of testimony from current or past clients about their experience with our firm on our website or social media platforms is strictly forbidden under current securities laws.