

Stillwater Capital - This Week in the Markets



The Top- Down

Things got a little weird this week, as it looks like the potential for a second Trump inspired “Orange Swan” is back on.

The Orange Swan is Back!

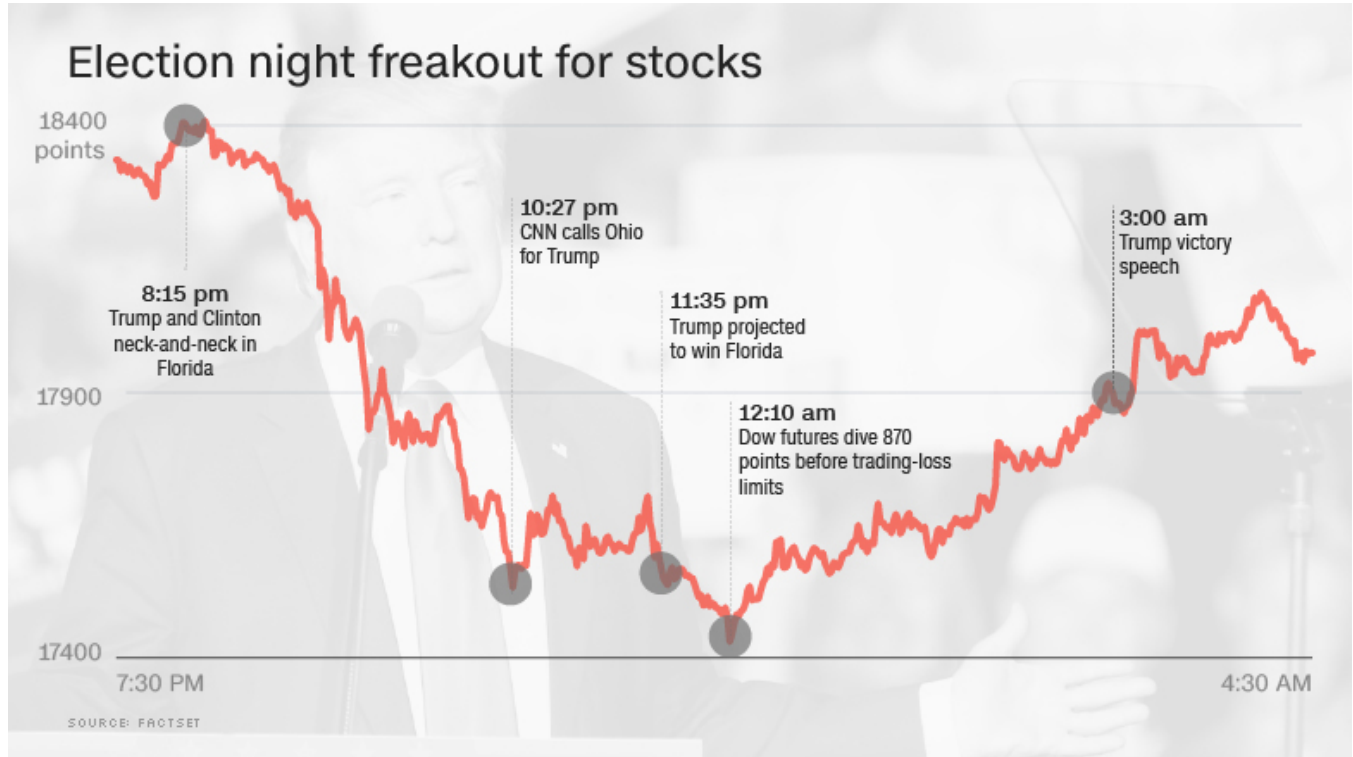


Source: Market Watch

The first event being the seemingly improbable election of Donald Trump as the 45th President of the United States. That night a few precincts in Ohio and Pennsylvania started going the

Donald's way, and the next thing you know, Carl Icahn is buying every S&P 500 call option he can get his hands on.

2016 Election Night Trading



Source: Forbes

Fast forward to this week, as both Paul Manafort and Michael Cohen were convicted of election related fraud, increasing the prospect for impeachment. The outcome, Trump declared, would result in a bad thing for the market. Fox & Friends went on the record saying, "I'll tell you what, if I ever got impeached, I think the market would crash. I think everybody would be very poor. Because without this thinking you would see numbers that you wouldn't believe, in reverse."

During the two previous impeachments, the market had decidedly different reactions, telling us that the economy is bigger than the political risk. This should come as a surprise to no one.

Not the Same

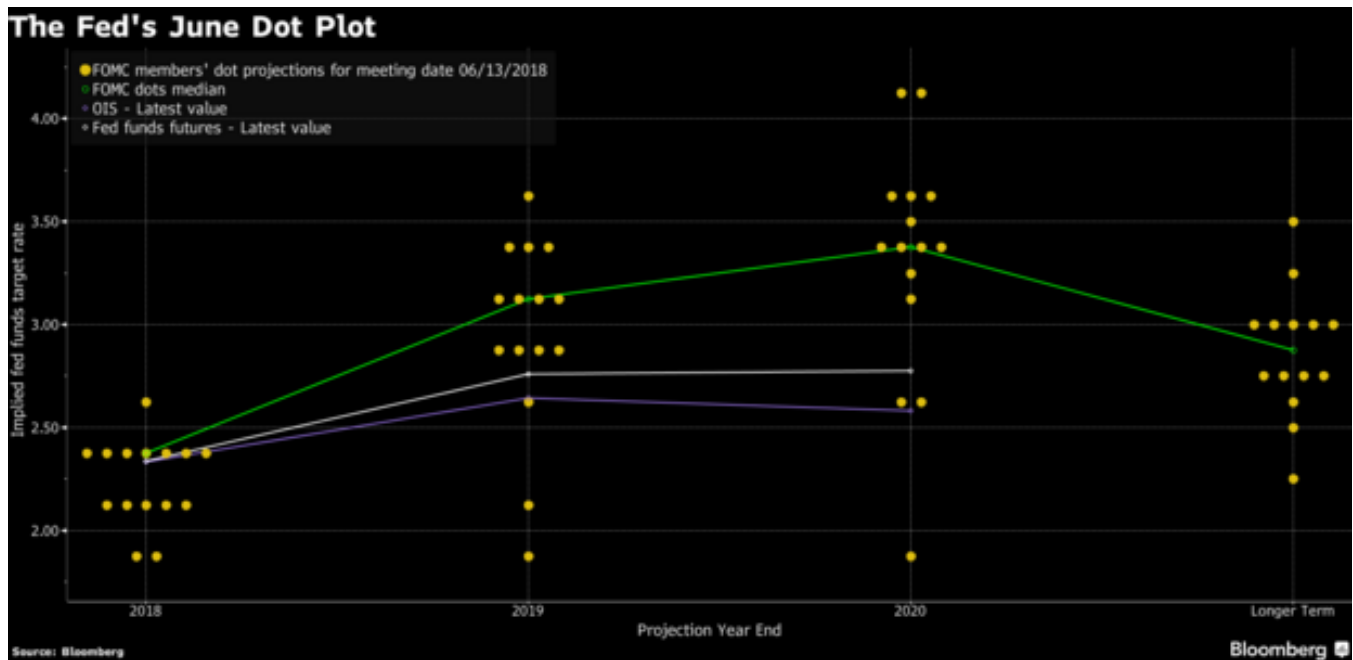
Nixon's impeachment threat saw equity losses yet stocks kept rising during Clinton's



The Stillwater View: They call tail event risk "Swans" for a reason, and we're not even sure where to begin with this one, so for the moment we won't even try.

The Kansas City Feds annual late August gathering in Jackson Hole kicked off yesterday, and Jerome Powell will take center stage this morning. It was eight short years ago that Ben Bernanke put this event on the map when he announced the extension of the Feds quantitative easing program.

Since then, no major market moving announcement has come out of this meeting of global central bankers. As *Bloomberg* points out, while there are indeed big questions hanging over the group, there simply aren't any big clear answers. Meanwhile, the dot plot continues to tell you where short rates are headed.

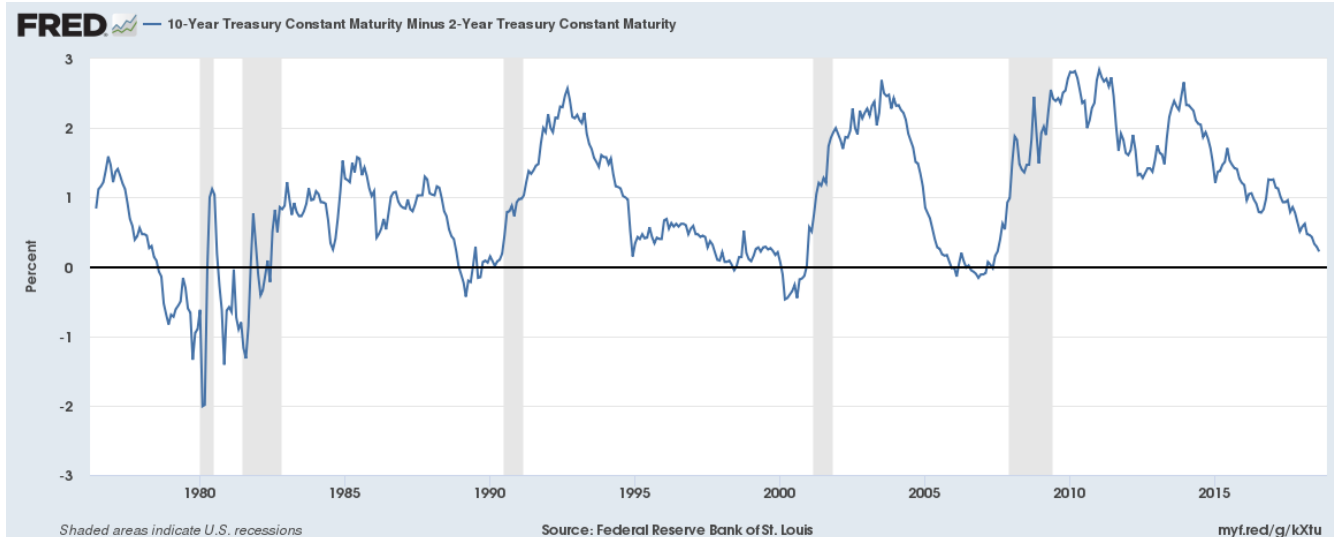


The Stillwater View: While we dream of the days of yore when this meeting promised some true market moving decisions, we realize that you can't live in the past and must always be looking forward if you want to make a dime in this business.

The flat yield curve, is about 25 basis points away from inverting, and along with it will come the recessions that follow. This is not lost on Fed governors, including Minneapolis' Neil Kashkari and Dallas Fed President Robert Kaplan.

More recently, Atlanta Fed president Ralph Bostic joined the chorus. Earlier this week, Bostic promised to do no harm, saying "I pledge to you I will not vote for anything that will knowingly invert the curve and I am hopeful that as we move forward I won't be faced with that. The market is going to do what the market does, and we have to pay attention and react."

Inversion Ahead



The Stillwater View: If everyone is looking at the same indicator, does it still possess the same predictive power it once did? Also keep in mind, the market has done well the year after the initial inversion. Sometimes providing the best returns of the cycle.

The Bottom-Up

There is a raging bull market in the bubbly water aisle, as deals they are a flowing as easy as seltzer over ice. Apologies, that was too easy!

Bubbly Water Gets Fizzy With It!



Source: Forbes

Following on the coat tails of Coke's purchase of Topo Chico last year for \$220 million, rival Pepsi plunked down \$3.2 billion for Soda Stream. The former is a Mexican bubbly mineral water, from Mexico. The latter is the controversial Israeli based maker of home brew soda machines.

Soda Stream Fizi Water Machine



Source: Costco

The uproar originally centered around the company opening a production facility in the disputed West Bank. A group of pro-Palestinians organized an effective boycott of the brand which resulted in several countries saying no to the product. All of which led to more than half of the free float of the company's shares to be sold short. At the time of the takeout this week, only 500,000 shares, or 2.5% of the float, were bet on the bearish side.

Out of the Crosshairs

Bearish bets melt away amid SodaStream turnaround

■ Short interest as % of float



Source: Bloomberg

As the shorts moved away, those holding the shares were rewarded handsomely. Racking up a six bagger in two short years. A freaking six bagger!!! Not a bad trade at all.

Fizzy Revival

SodaStream shares soared after sales push focused on health



Source: Bloomberg

The Stillwater View: It never ceases to amaze that behemoths like Coke and Pepsi can put in so much effort to internally develop new products, but in the end wind up having to go outside their walls to fill the void.

Topo Chico has been around for 125 years and has a semi-cult following in Texas. It's not like the brand, or its popularity, just jumped out of the closet.

Topo Chico



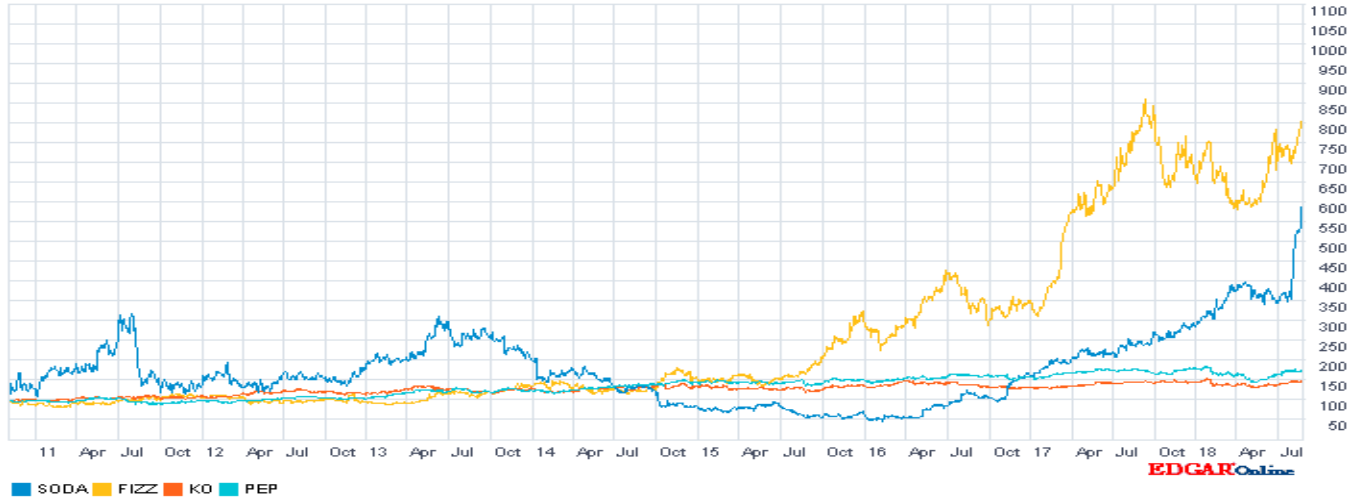
Stillwater remains short the shares of National Beverage, the maker of LaCroix, on the idea that the seltzer market is getting full fast. The early innovation has happened and the land rush is now on!

Bubbly Water > Sugar Water

National Beverage, Soda Stream vs. Coca-Cola, PepsiCo.

94 Month

08/23/18



Next product innovation to blow up? By adding fermented sugar to bubbly water you get what's called "hard seltzer", and all the marginal life decisions that go with it. "Rose all Day", move down the bench, there is a new drink in town and momma wants some!

White Claw Hard Seltzer



Source: Viking Beverage

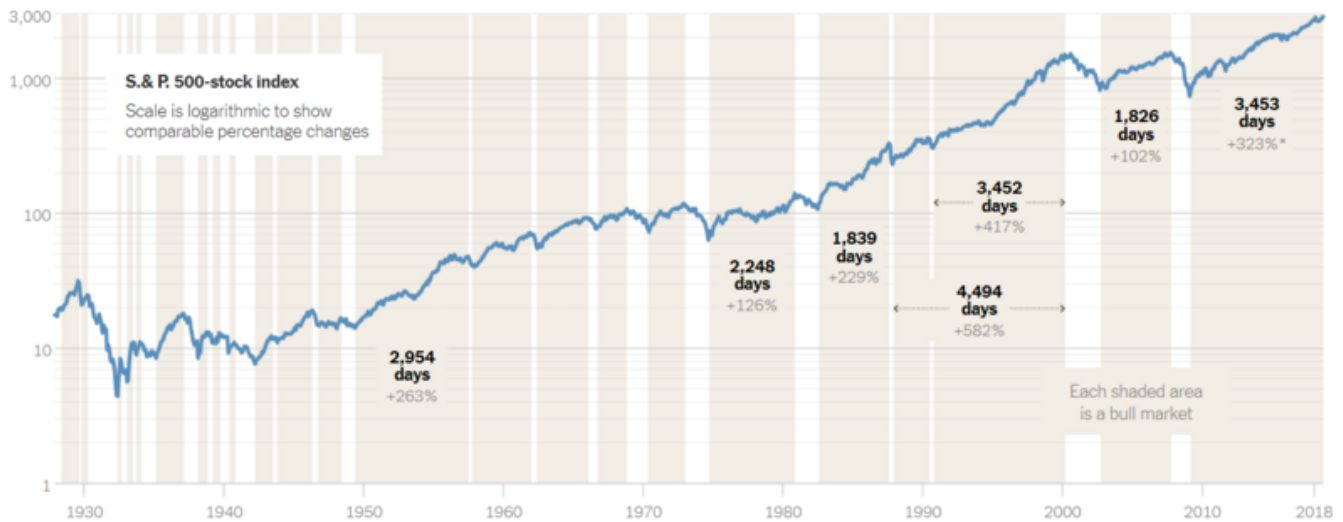
Up & Down Wall Street

This Wednesday, the current bull market became the longest in history when it turned 3,452 days old, surpassing the previous champ, the 1990 to 2000 run, and it did so with the odds stacked both for and against it. While there have been bumps along the way, this has indeed been one hell of a ride.

Running of the Bull

The Longest Bull Markets

At 3,453 days, the Standard & Poor's 500-stock index has reached a milestone: It is the longest bull market on record if you count a 19.9 percent decline in 1990 as the start of its rival. Bear markets are often marked by declines of 20 percent or more.



*Percentage change through Tuesday. The duration counts all calendar days. | Sources: MacroTrends; Yardeni Research; Thomson Reuters | By Karl Russell

Everyone got into the act to report the news and memorialize the momentous occasion. CNBC of course had the full coverage. From the left there was MSNBC, and from the right FOX Business. From our nation's capital there was this from the Hill, and for those who like a warm sweater and a nice leather chair, there is the PBS version. The great journalists at Bloomberg point out that there are many versions of the bull market, this being only one of them.

Just to make sure you don't get too excited about the current state of affairs, Gluskin Sheff's ever gloomy David "Not so Rosy" Rosenberg warns that the market is losing its artificially stimulated mojo.

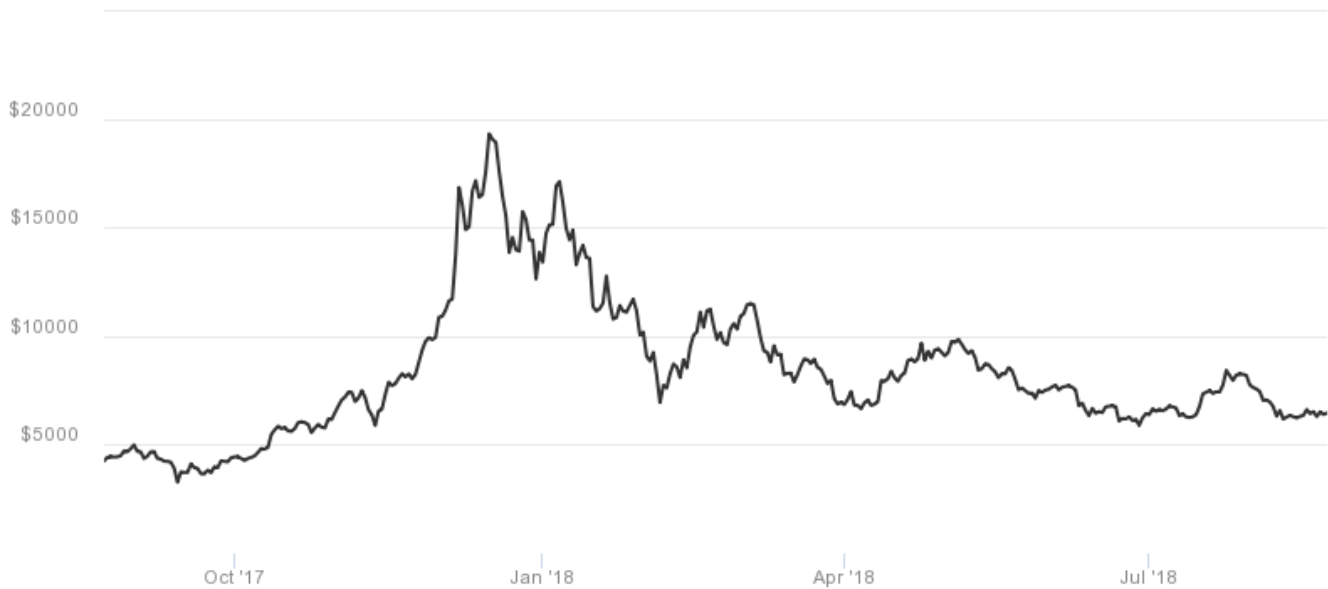
Nobody Likes A Grump, Rosy



Source: Bloomberg

The SEC continues to cast a wary eye towards cryptocurrencies, again denying a request to create crypto based ETFs. Most currencies have had a rough go of it this year, as the bloom came off the rose when they stopped going up every day.

Bitcoin One-Year Round Trip



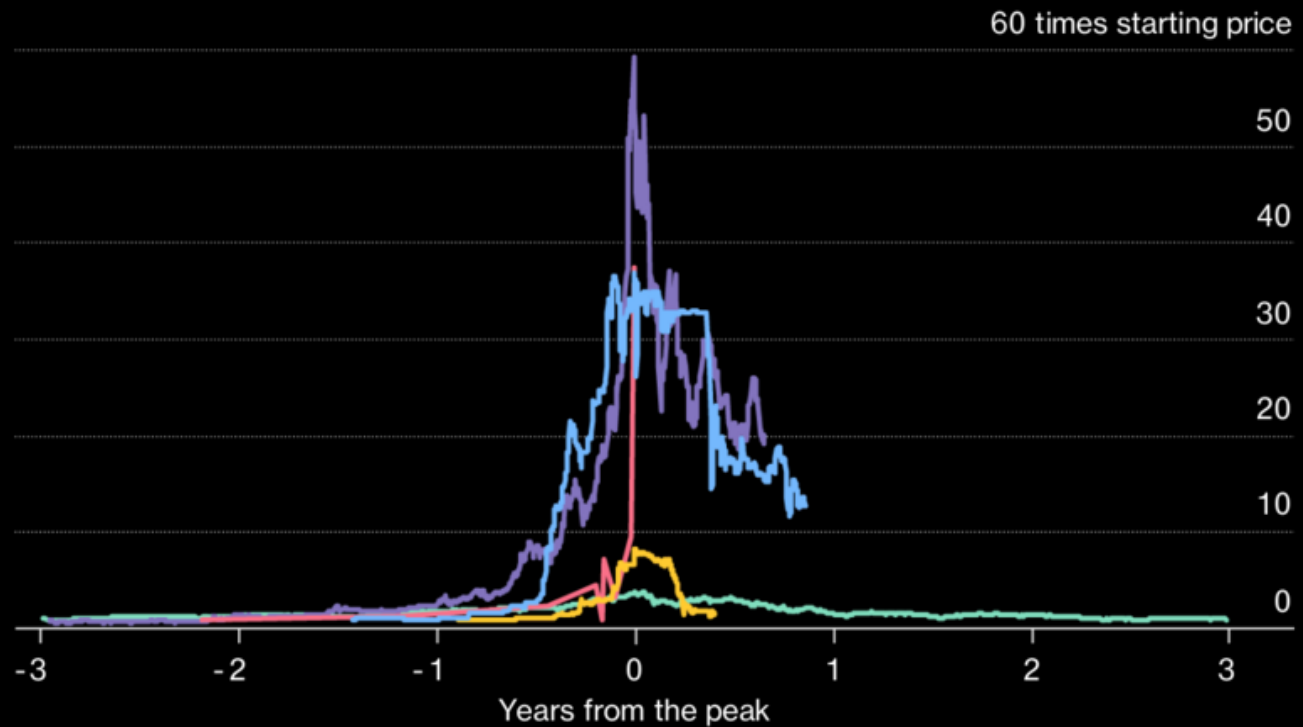
Source: Coindesk

This morning, *Bloomberg* profiled how the Bitcoin bubble compares to others in history.

How Bitcoin Stacks Up

The cryptocurrency's rise and fall tops historical asset bubbles

Bitcoin Mississippi Tulips South Sea Nasdaq Composite



Sources: Bloomberg, International Center for Finance at Yale School of Management, Peter Garber

Note: Starting price is the price three years prior to each asset's high, or the earliest available price in cases with fewer than three years of data.

Bloomberg

The Stillwater View: You could almost time this move to the day when cousin Mikey called to ask how he could get in on this trade that was going to change the world. Who knows, maybe he still will.

Goldman Sachs provided their quarterly look at where hedge funds are hiding out, and the top-ten list should come as a surprise to no one. Leading the charge is Facebook, which can't be helping performance out this quarter. Market Gods willing, they are at least equally long Amazon and Microsoft.

The VIPs

Goldman's hedge fund very important positions basket

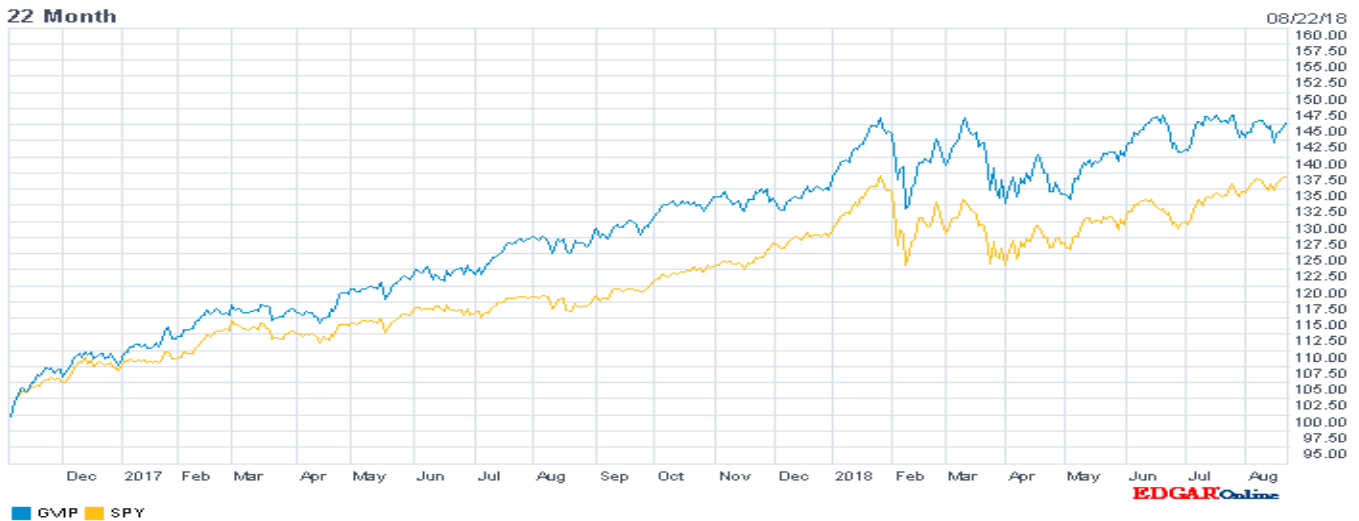
Company	Sector	No. of funds with stock in top 10 holdings ▲
Facebook (FB)	Internet	98
Amazon (AMZN)	Internet	81
Microsoft (MSFT)	Software	76
Alphabet (GOOGL)	Internet	54
NXP Semiconductors (NXPI)	Semiconductors	47
Alibaba (BABA)	Internet	43
Visa (V)	Financial	43
Aetna (AET)	Health care	41
PayPal (PYPL)	Financial	31
Comcast (CMCSA)	Cable	30

Source: Goldman Sachs



The firm did a great job monetizing their hedge fund holding work with the introduction of the [hedge fund favorites tracker ETF](#), symbol [GVIP](#). The ETF was launched two years ago this November and has a relatively small \$125 million in assets. Performance has been pretty good, outpacing the S&P 500 since inception.

Hedge Fund VIPs vs. S&P 500



The Stillwater View: While I don't want to put ourselves, or any other alternative equity manager out of business, it's worth pointing out that you could use the GVIP in pretty creative ways to create a frugal man's hedge fund.

To do so, you would take a dollar and invest it in GVIP, against which you could short any number of ETFs to reduce your market risk and add alpha. Paired as \$1.00 long and \$0.50 short.

The trade of the year would have been to be long the Goldman hedge fund VIPs, and short the emerging markets. The 12 month return is roughly 10% with 50% market exposure and half the market risk, in theory. All for the very low price of 50 basis points. To be clear, if you had this kind of performance and were a 2 and 20 hedge fund, you would be on top of the leader board.

Hedge Fund VIPs vs. Emerging Markets



Diversions

Yellowstone, the Western drama set on John Dalton's cattle ranch in Montana, was this summer's sleeper hit. It trailed only *The Walking Dead* in terms of popularity among pay TV viewers. We've been avid watchers since the show's premier and began our journey with a skeptical eye to this Western drama. It didn't take us long to get on board Taylor Sheridan's work, and we have been hooked ever since. The show has proven to be so popular that Paramount TV has extended the contract for another two seasons. The first season can be [accessed here](#).

Kevin Costner as John Dalton



Source: Paramount Networks

The Stillwater View: As someone with ties to the Yellowstone area, I can honestly say that this show has done a truly great job of capturing life in the valleys adjacent to the park, with a little dramatic license thrown in for good measure. As everyone has a little cowboy in them, it's well worth the time to watch.

In other television related news, this week it was announced that on Thanksgiving weekend, Tiger Woods and Phil Mickelson will compete in "The Match". A \$9 million winner takes all competition will be match play in format, and will include a few side bets such as, closest to

the pin and at least one long drive challenge. Turner sports will be airing the competition as part of a pay-per-view package. The good natured trash talk between the two has already begun.

Dual in the Desert



Source: Turner Sport

The Stillwater View: Tigers resurgence, as he has been in contention in the last two majors, and Phil's quest for the US Open, have made this year on the PGA tour one to remember. It will be entertaining to watch these two lions in the autumn of their careers dual it out at Steve Wynn's Shadow Creek.

Burning Man is back once again, taking over the Black Rock Desert in Nevada. The Festival runs from August 26th through September 3rd this year. *The Washington Post* provides a great look back at the history of the event and how it has evolved over time.

The Black Rock Lighthouse



Source: Stuck in Customs

The origins of the Burning Man Festival dates back to the Summer Solstice 1986 when Larry Harvey and Jerry James dragged "The Man" down to Baker Beach, just outside of the Golden Gate in San Francisco and proceeded to burn it as their friends watched in awe.

Raising the Man on Baker Beach



Source: The Burning Man Journal

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