

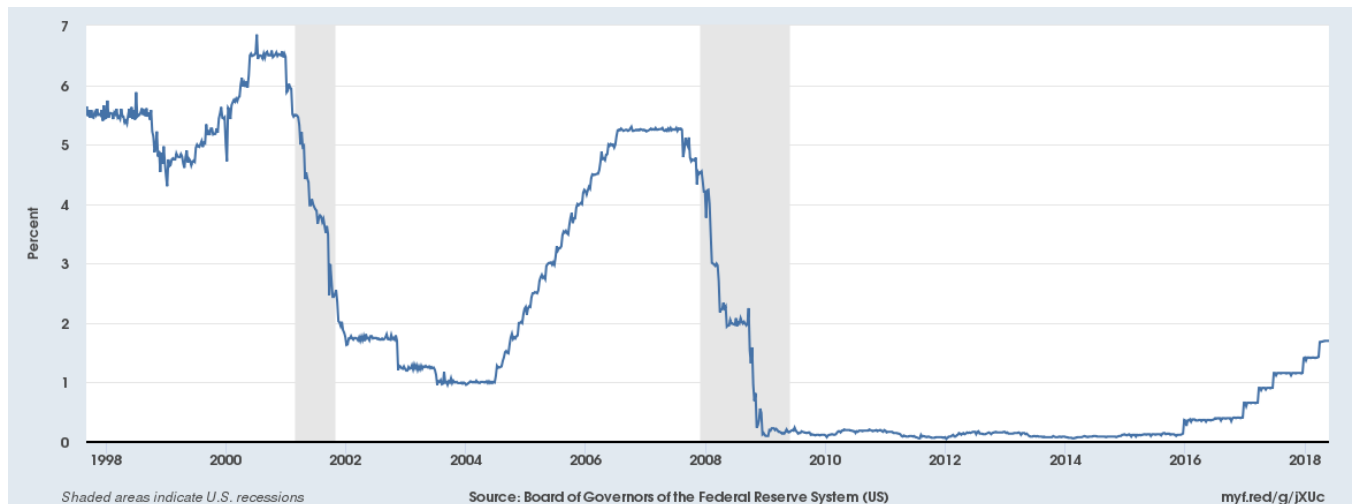
## Stillwater Capital - This Week in the Markets



### The Top- Down

It was a downright boring week in terms of top-down economic news. Domestically the highlight was the release of the minutes from the most recent Federal Reserve meeting. The takeaway being the Fed was not terribly concerned with inflation and would let it run above 2% without being forced to jack up rates.

### Effective Fed Funds Rate



Source: Saint Louis Federal Reserve

*Stillwater View: Though this week was indeed a yawner, it did give us the opportunity to pull up the Fed Funds chart and remind us once again just how far the 2004 to 2006 tightening cycle ran. From 1% to 5% in 24 months! The great recession would arrive two years later.*

In global economic news, the recently well running advanced European economies, as well as those in the emerging markets, have begun to show signs of slowing. The evidence being the drop off in Eurozone manufacturing PMI since its peak last December.

## Euro Area Manufacturing PMI



Source: Trading Economics

This has the liberal stalwart [Paul Krugman](#) joining the [doomsayer chorus](#). Calling for more pain ahead in [emerging markets](#), as currencies and the bourses abroad are both trading lower.

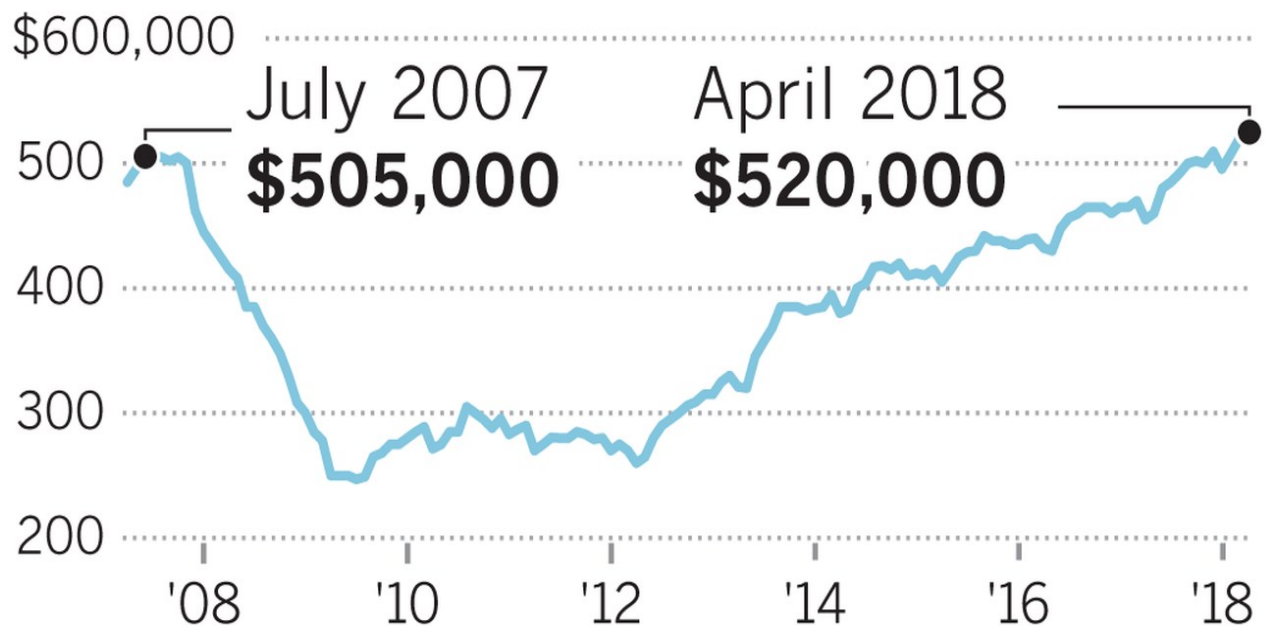
## Submerging Markets



Source: Bloomberg

*Stillwater View: While the global growth train appears to be on the tracks, there is no doubt that changes at the margin are cause for concern. Especially given that this is the second longest economic expansion on record. With the longest being the 1991-2001 period of growth. If it can make it to next summer, this will take over that title.*

Following up on last week's housing news, the [Los Angeles Times](#) reported that home prices in the hot Southern California market continue to surge as the median price increased 7.2% from last year.



Source: CoreLogic & The LA Times

This hasn't stopped the [homebuilder group](#) from having its worst year since 2008 on the back of rising interest rates and slowing growth.

This move lower may prove to be the straw that broke Marble Arch's back. The 11-year-old "Tiger Cub" hedge fund backed by Julian Robertson is shutting down after a dismal start to 2018. The \$2.4 billion fund's largest holding was D.R. Horton. The stock had a hefty 8% weighting in the portfolio and is down 20% on the year.

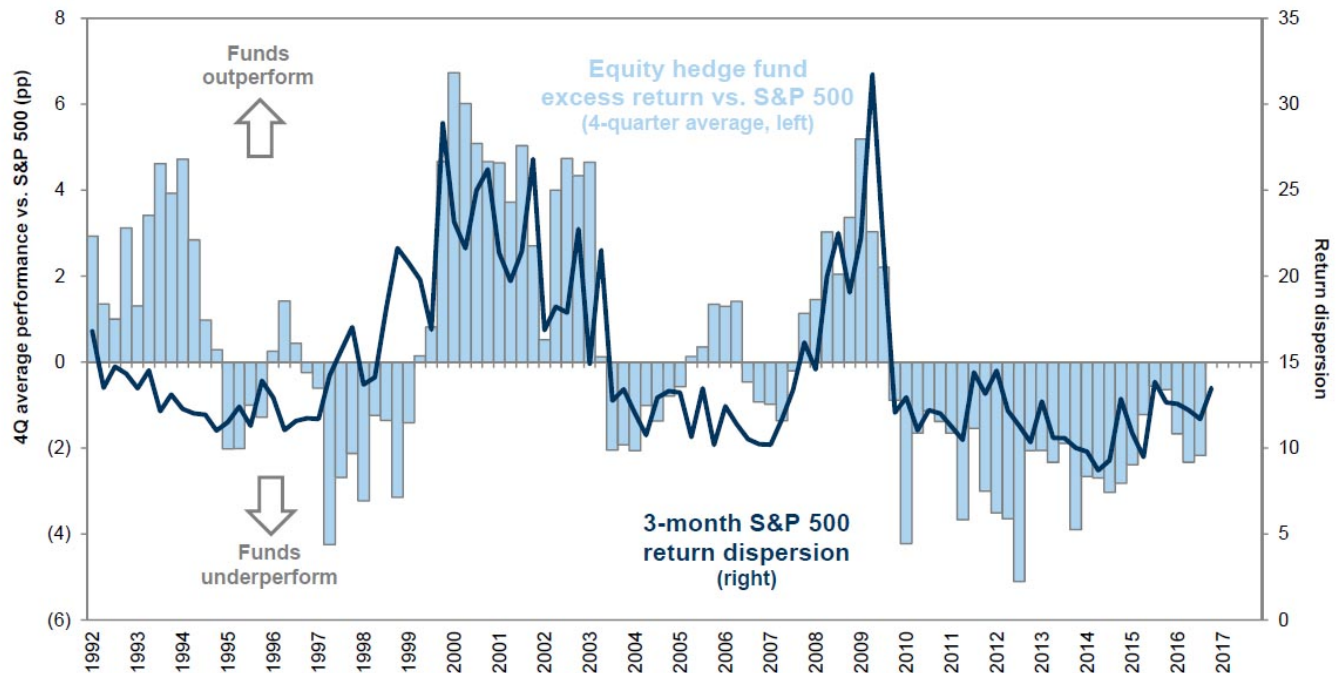
As Zero Hedge reported a year ago, the "[Tiger Cubs](#)" have not weathered the hedge fund storm well. While slightly dated the chart below from Goldman Sachs tells the story why.

### **Excess Return Goes Away When Dispersion Drops**



# Stock-pickers struggle when dispersion is low

3-month return dispersion and equity hedge fund excess return vs. S&P 500



Source: Zero Hedge and Goldman Sachs

## The Bottom-Up

Uber is on a roll, reporting a net revenue increase of 67% from Q1 of last year. The disclosure was made when the company announced another tender offer, this time valuing the company at \$62 billion, up from last years \$48 billion. Not bad for a company that is losing \$300 million a quarter. Which is of course less than the \$600 million it was losing last year at this time.

The *Wall Street Journal* reports that Uber Technologies is sticking by its plan to go public in 2019. Though it is still looking for chief financial officer, chief compliance officer and four new members of the board.

## Uber Self-driving Cars



Source: Marketplace

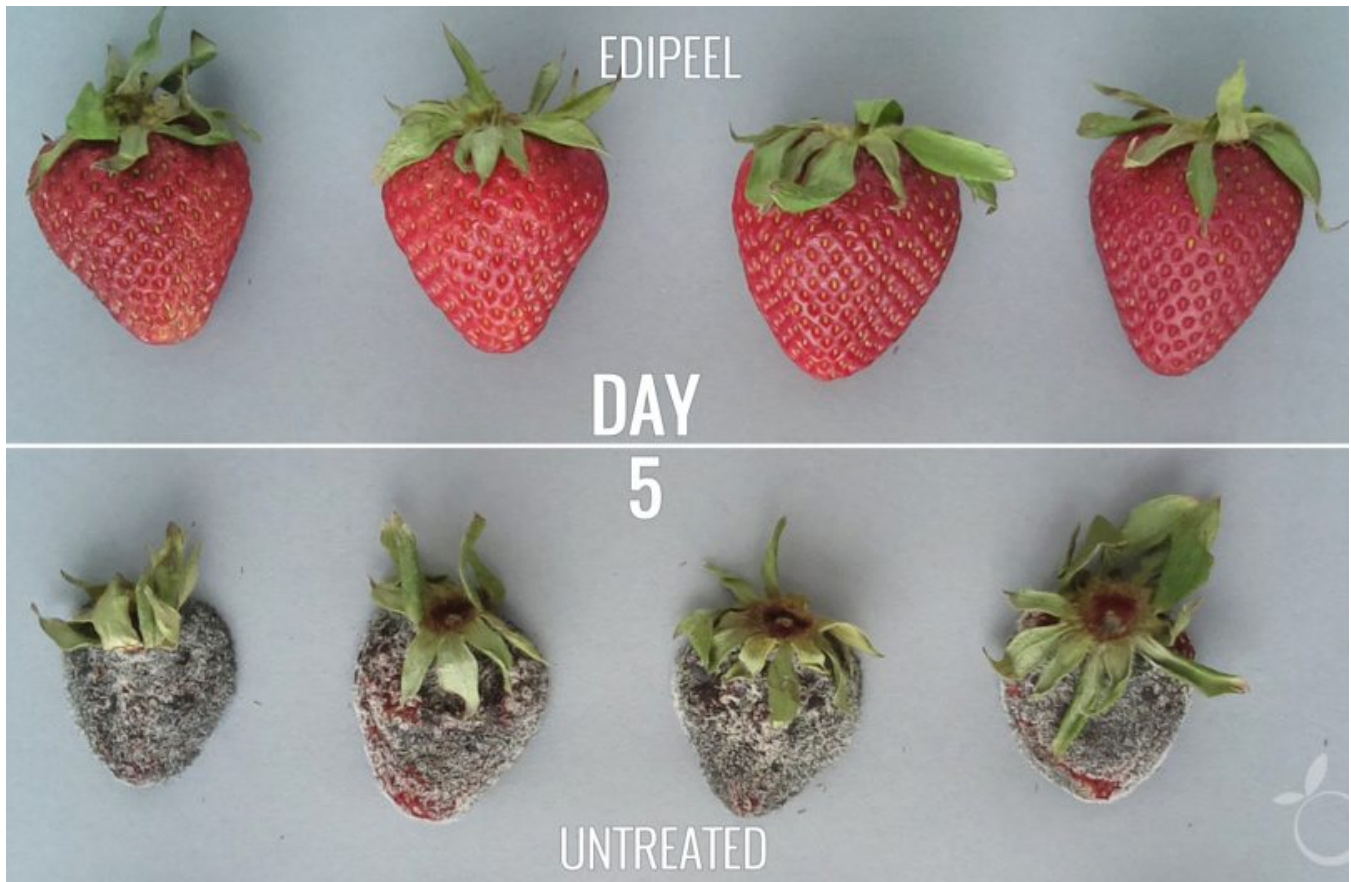
*Stillwater View: Isn't the idea that you use an app now to call a car, and are therefore freed from the need to actually "hail" anything? With that being said I will be the first to sign the petition that says you don't have to say "ride-hailing" before the name Uber anymore. It's understood at this point.*

Which leads us to CNBC's list of the 2018 disruptors. The fifty companies who made the list includes not one, not two, but three ride sharing enterprises. All are in the top-10.

Some of the ones that made the list will be familiar, such as SurveyMonkey and 23andMe still make the list. While newcomers like Peloton and Fanatics show that it's not all about driverless cars, cryptocurrency and cloud based whatever.

Our hats off to a local company made good, Apeel Sciences. Based in Goleta, the company was founded by James Rogers, a materials engineer who applied what he knew about the effects water and oxygen have on steel to the spoilage of agriculture products. The company was number 48 on CNBC's list. The unconfirmed word on the street is that Bill Gates sent him \$1 million, sight unseen.

**Edipeel in Action**



Source: Disruptor Daily

*Stillwater View: With such big promise in terms of what it can do for fresh food storage there is good reason as to why the Gates Foundation got in the game.*

*Special thanks to 'This Week' reader and former Santa Barbara Asset colleague Joe O'Flaherty for pointing this company out. Mony's on me next time.*

In other food related news, this week the maker of Necco Wafers was sold out of bankruptcy for \$18.8 million this week. That assumes you consider tiny candy wafers with a nuclear half-life as food. The winning bid came from the Spangler Candy Company of Ohio, the maker of Dum Dums.

Necco Wafers



Source: Necco

Salesforce has shiny new headquarters in San Francisco. The building, the tallest commercial structure west of the Mississippi, was ten years and over \$1 billion in the making. Originally named the Transbay Tower, Mark Benioff sealed the deal to have a name change when he took down 30 floors of the building.

This promotional video makes the place look like a veritable Bay Area utopia with no crowds and ample space.

### **Salesforce Tower**



Source: Salesforce Tower

## *Up & Down Wall Street*

Wall Street legend Ken Langone has a new book out called "[I Love Capitalism](#)" and watching him make the rounds is nothing shy of spectacularly entertaining. Very few provide their unvarnished thoughts quite like Ken.

And watching the interviewer pucker as he gets ready to unload an F-S-A-or D-Bomb is must watch TV. Marinate some pre-Memorial Day ice cubes and watch as Mr. Langone provides his thoughts while making the rounds on [CBS](#), [Fox Business](#), and [Bloomberg](#).

## **Home Depot Co-Founder Ken Langone**



Source: CNBC

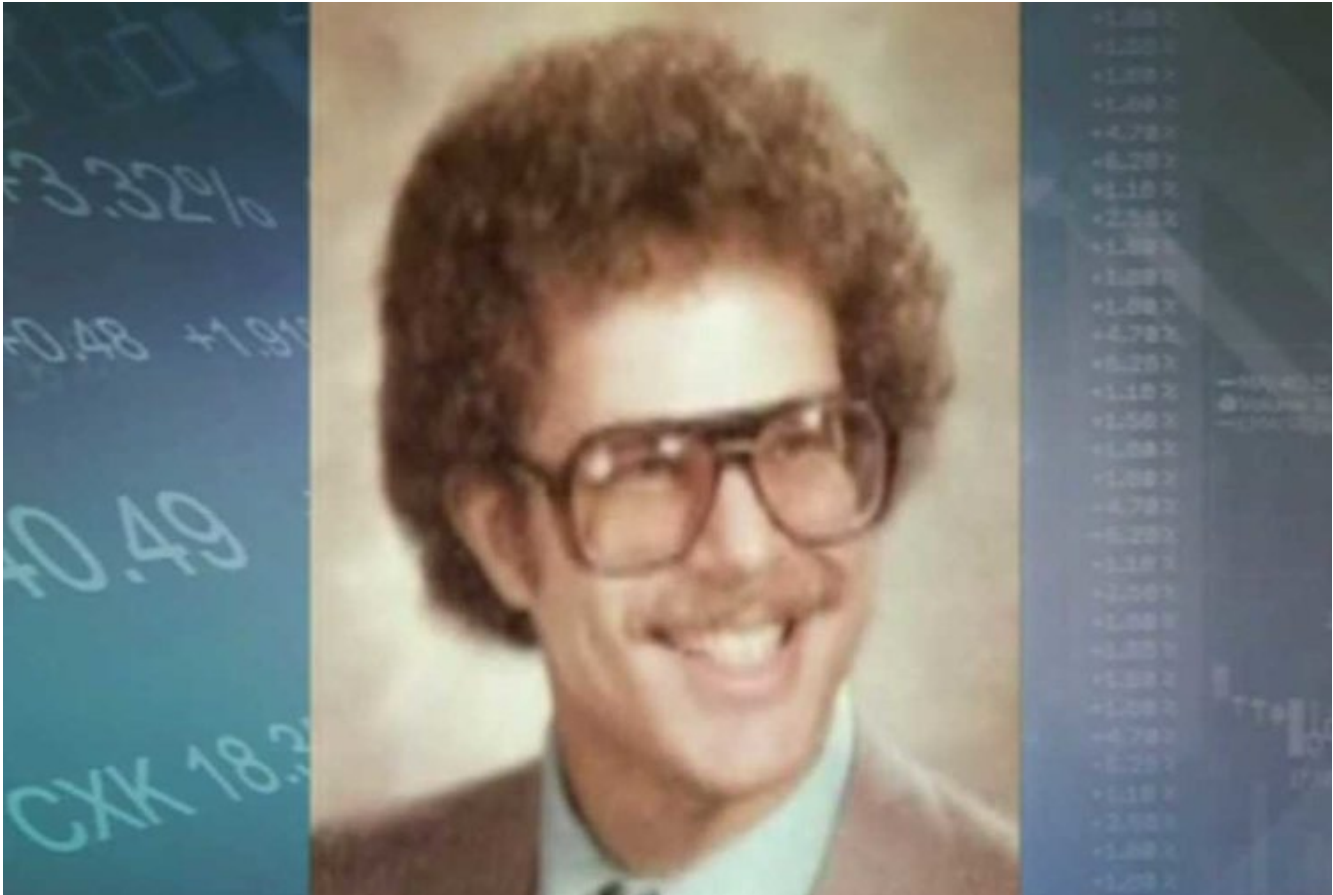
*Stillwater View: Beyond everything we thank Ken for his candor about all things Wall Street and Main Street. We also thank him for his service to Kappa Beta Phi... "Dum vivamus edimus et biberimus"*

[David Tepper](#) is making news on and off Wall Street this year. On top of putting up 7% so far he also took down the Carolina Panthers for \$2.3 billion in cash this week.

His firm, Appaloosa, manages \$17 billion with 70% of that being his and other employees money. Here is the link to a [bootlegged](#) four part CNBC interview from last year. It is well worth the time and effort.

He also gave an emotional speech at his alma mater, Carnegie Mellon University, earlier this month. The full speech can be found here.

### **A Very Young Afro Clad David Tepper**



Source: Business Insider

*Stillwater View: We were, are, and always will be big admirers of David Tepper. He brings uncommon candidness and simplicity with his views, never afraid to call it like he sees it. Earlier this year he said that stocks weren't overvalued.*

*And laugh all you want at the epic afro and goofy glasses...but he won!*

It was reported this week that Goldman Sachs pulled in a staggering \$200 million on a single VIX trade in February of this year. While not the only ones who made money on this trade, \$200 million is still \$200 million.

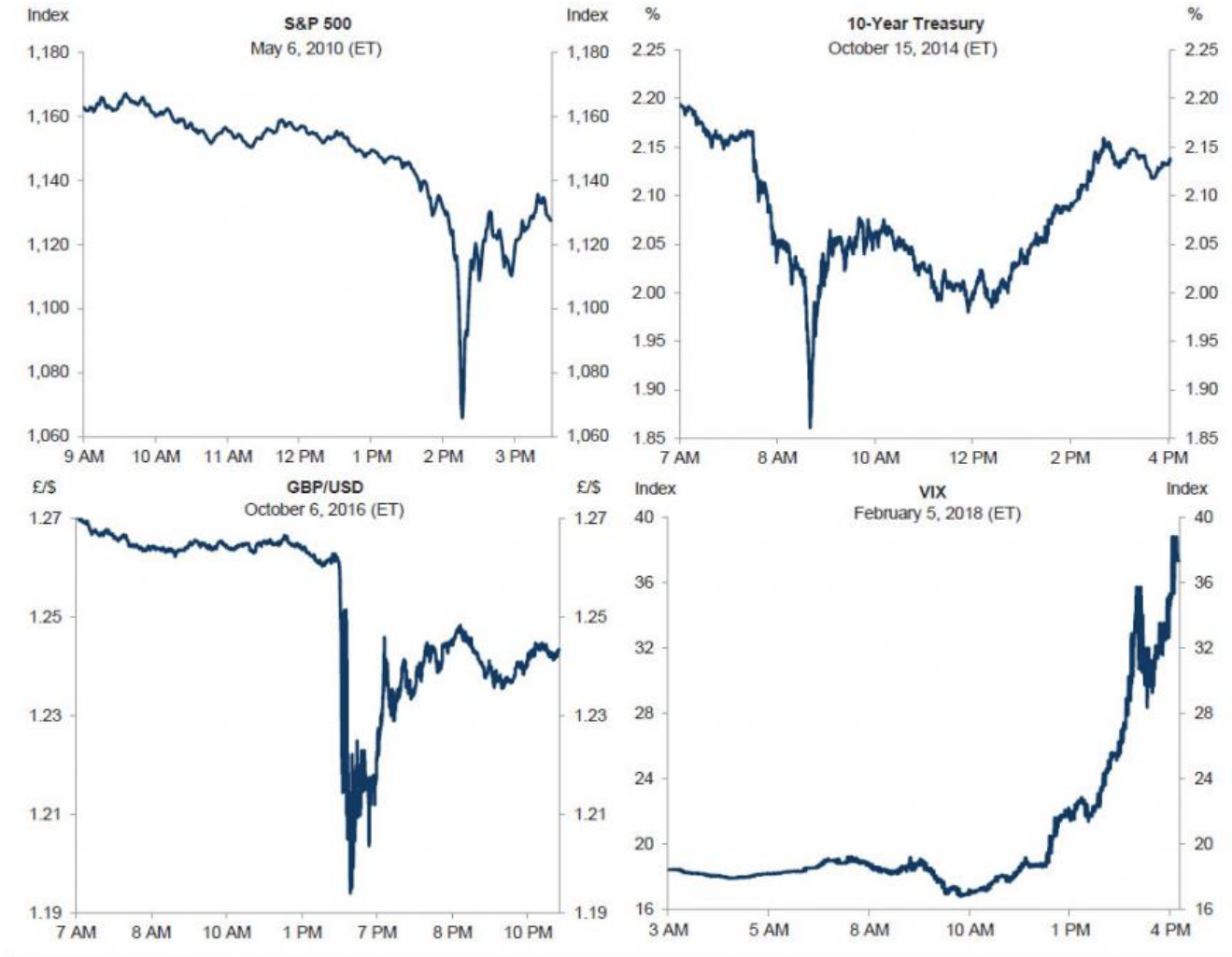
### **February VIX Spike**



Source: CNBC

In a piece that made the rounds this week, the firm also warned us that the growth of leverage in structured and algorithmic products would have the likely effect of increasing the risk of future flash crashes.

### Flash Crashes Across Markets



Source: Goldman Sachs

*Stillwater View: This note from Goldman is a little like the warnings about the next recession. It's not a question of if, it's a question of when. Having lived through a small dress rehearsal in February we are 100% convinced of this fact.*

*Knowing that it will happen is important, because losing your cool when it does will not end well. Our biggest fear is if the algorithmic dog starts to wag the fundamental tail.*

### Diversions

Memorial Day Weekend is upon us, and so is one the finest days in motor racing.

On Sunday, you can catch both the Indy 500 and the Grand Prix of Monaco. The former starts at 9:00 eastern followed by the latter at noon. Danica Patrick provides her reflective thoughts to *Sports Illustrated* on what will be her last Indy race.

Meanwhile, over in the Principality you have this to look forward to as Formula One takes on its oldest circuit.

## The Grand Prix of Monaco



Source: Formula 1

If you need any further inspiration as to why you should wake up early on Sunday, this video from Daniel Ricciardo setting the lap record on the streets of Monaco should suffice.

And if that's not enough to keep you awake for the second race, here is what it looks like inside the track with Mario Andretti.

## The Starting Grid at Indy



Source: RTV6

Sadly, this is ABC's last time calling the race, as their streak ends at 54 years and NBC Sports takes over next year.

Look no further than Keith Jackson's baritone introduction to the 1975 race to understand why the relationship was so special.

This weekend brings with it the official start to summer and its easy to get caught up in the opening of beach season, barbecues and endless reruns of Jaws.

What should not be lost however is the meaning of Memorial Day and the remembrance of those who put on a uniform or picked up a gun to fight for the American ideal of freedom and liberty, paying the ultimate price.

### **Omaha Beach on D-Day**

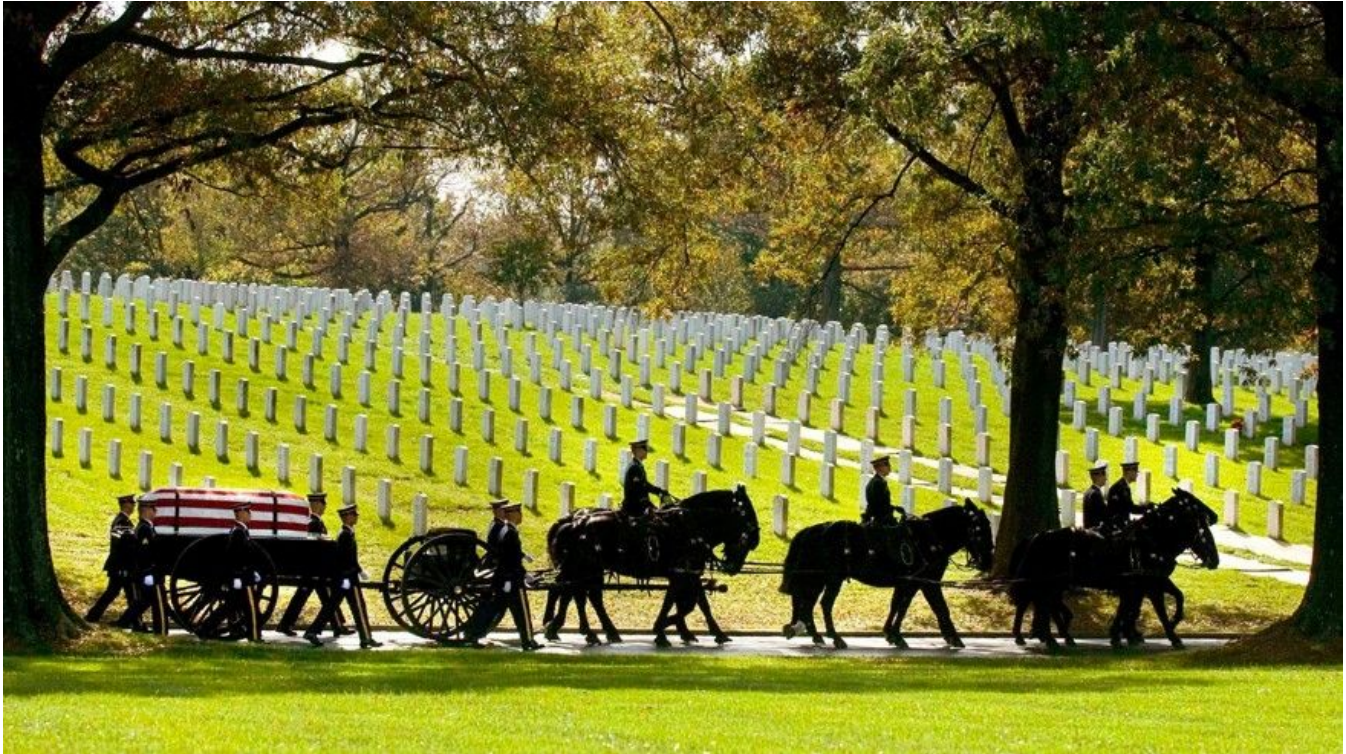


Source: The History Channel

*Stillwater View: This image is a striking reminder of what it means to be fearless in the face of seemingly unsurmountable odds while fighting the good and righteous fight.*

*We are forever indebted to those who made the ultimate sacrifice to allow us to continue to live under the banner that reads "America, land of the free and home of the brave."*

**Arlington National Cemetery**



Source: The Washington Post

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