

Boom Goes the Dynamite!



Markets showed us this week that it's actually possible not to go straight up, which comes as a surprise to some, as the case for gloom has been turned into a chase for boom in five weeks' time. The aforementioned boom was ignited by the synchronous bottoming in global interest rates in early October, signaling that the worst might be over for the economy.

The World v. United States

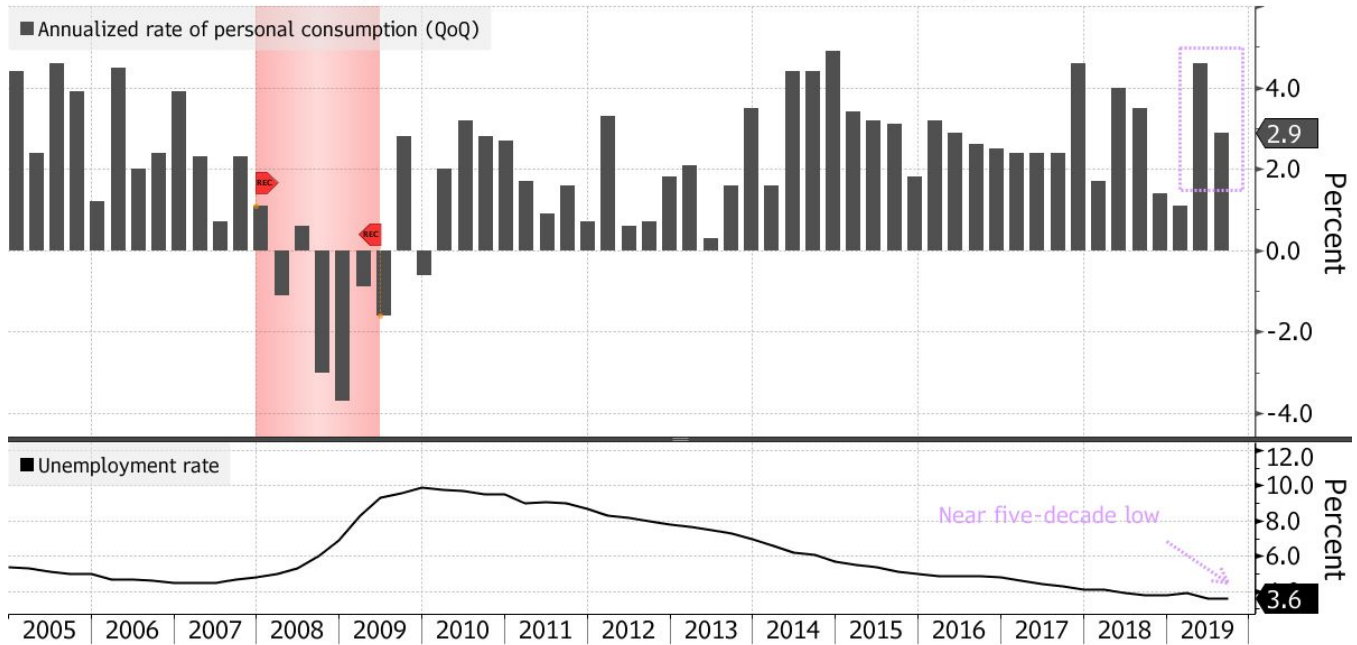


Last week, President Trump called Jerome Powell into White House for a little pow-wow with he and Treasury Secretary Mnuchin. On the agenda, let the Chairman know he didn't think the Fed's policy on rates was the right one at the time, which should come as a surprise to absolutely no one. Jerry didn't listen and continues to refer to this as a 'star economy'. The joke is that the two are actually good friends. One of the reasons for his rosy outlook is that the American consumer has yet to blink an eye in the face of a possible slowdown or recession.

All Full Ahead

Orbiting the Consumer

Powell's 'star economy' traced to robust consumption, strong job market



Source: Bureau of Economic Analysis, Bureau of Labor Statistics

The Chief Economist at Goldman Sachs, Jan Hatzuis, thinks that trade concerns are going to fade in 2020, and why shouldn't they, as both sides have some reason to get a deal done. Whether it be 'phase one', where agricultural products start exchanging hands again, or a larger bargain, somehow someway, this log jam will eventually get broken. How badly the bridge will be damaged remains to be seen.

Quite a Mess



Source: Bellingham Herald

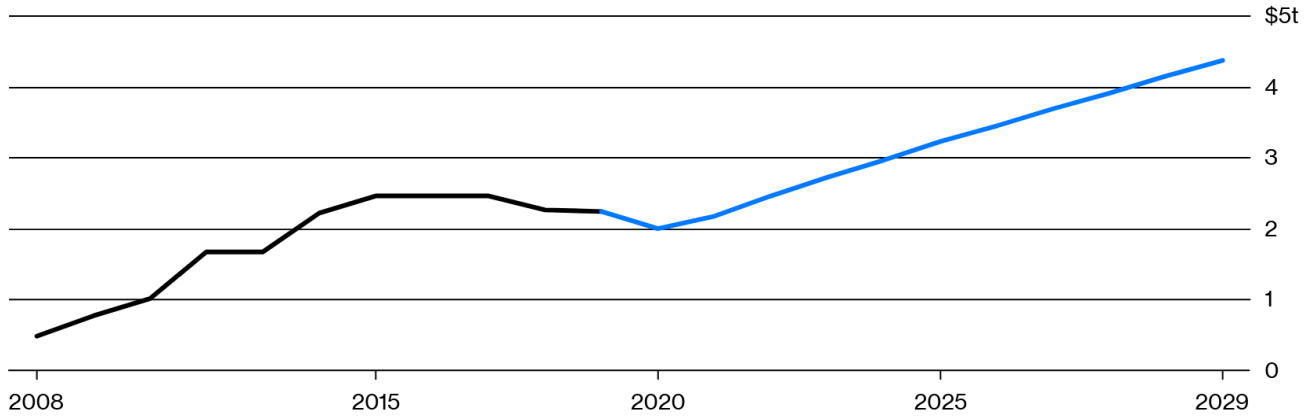
As for the markets, it's all gravy as the S&P 500 is up 15% since the trade war started in the spring of last year. It successfully caused the Federal Reserve to roll over and cut rates because of the risk it was causing to the global economy. So just imagine where the market will go when the 'truce' is finally called. Meanwhile, the QE monetary morphine drip keeps flowing and there is no pain to be received.

Long Them Bonds

QE Forever?

Value of U.S. Treasuries held by the Federal Reserve

Actual Projected



Data: Federal Reserve, Wells Fargo estimates as of February

Sticking with Goldman, the investment bank's former second in command, and one-time Trump advisor, Gary Cohn, went on record this week saying what most everyone already knows, and that is the President knows he will 'lose credibility' if he blinks on China. At the same time, China's President Xi could wait around for twelve months to see if he can get a new dance partner with a softer shoe.

Who Gets Who?



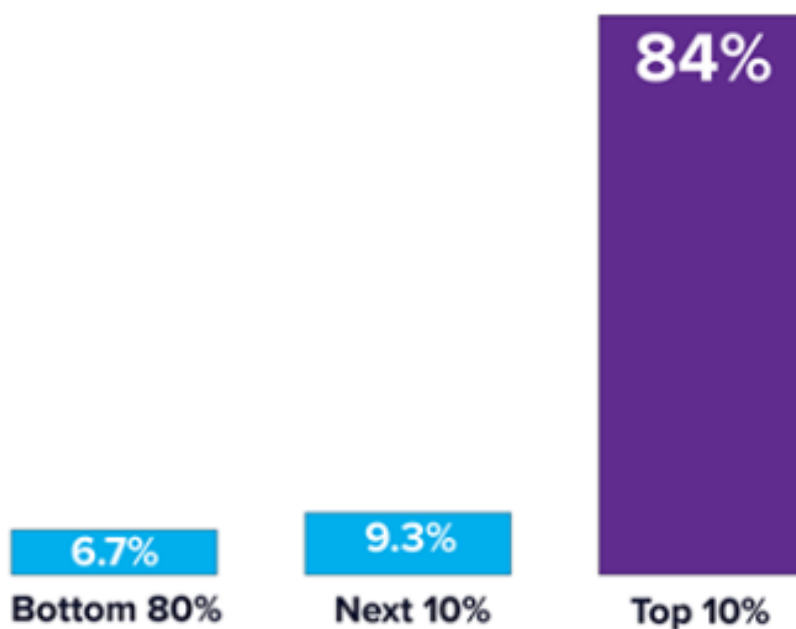
Source: Business Insider

Oddly enough, or not so oddly at all, the woman who once ran the Federal Reserve, and the quantitative easing machine, thinks there is now a heightened risk of recession, even while the economy looks to be in 'excellent' shape. Former Fed chair Janet Yellen, made those comments at the World Business Forum, emphasizing that there is little in the way of dry powder left, and that wealth disparities pose an 'extremely disruptive' risk. The latter point has been well flogged lately by the likes of Ray Dalio and others. The reality is, in an economy reliant on debt and elevated asset prices to grow, if you don't own any assets and are instead long debt, you're basically screwed.

Ownership Society

MOST AMERICANS DON'T OWN STOCKS

DISTRIBUTION OF STOCK OWNERSHIP BY WEALTH PERCENTILE



From the Short Side

With the markets have become very well bid since the bottoming in global interest rates on October 3rd, it's been tough sledding on the short side of the ledger. Part of the reason being that when the 'risk on' bell rings, the buying can be pretty indiscriminate, with laggards quickly becoming the leaders. Or in biblical terms, 'the first shall be last, and the last shall be first'. It appears now that Bridgewater is taking the other side of the Matthew 20:16 trade.

The Final Judgment



Source: MDP Parish

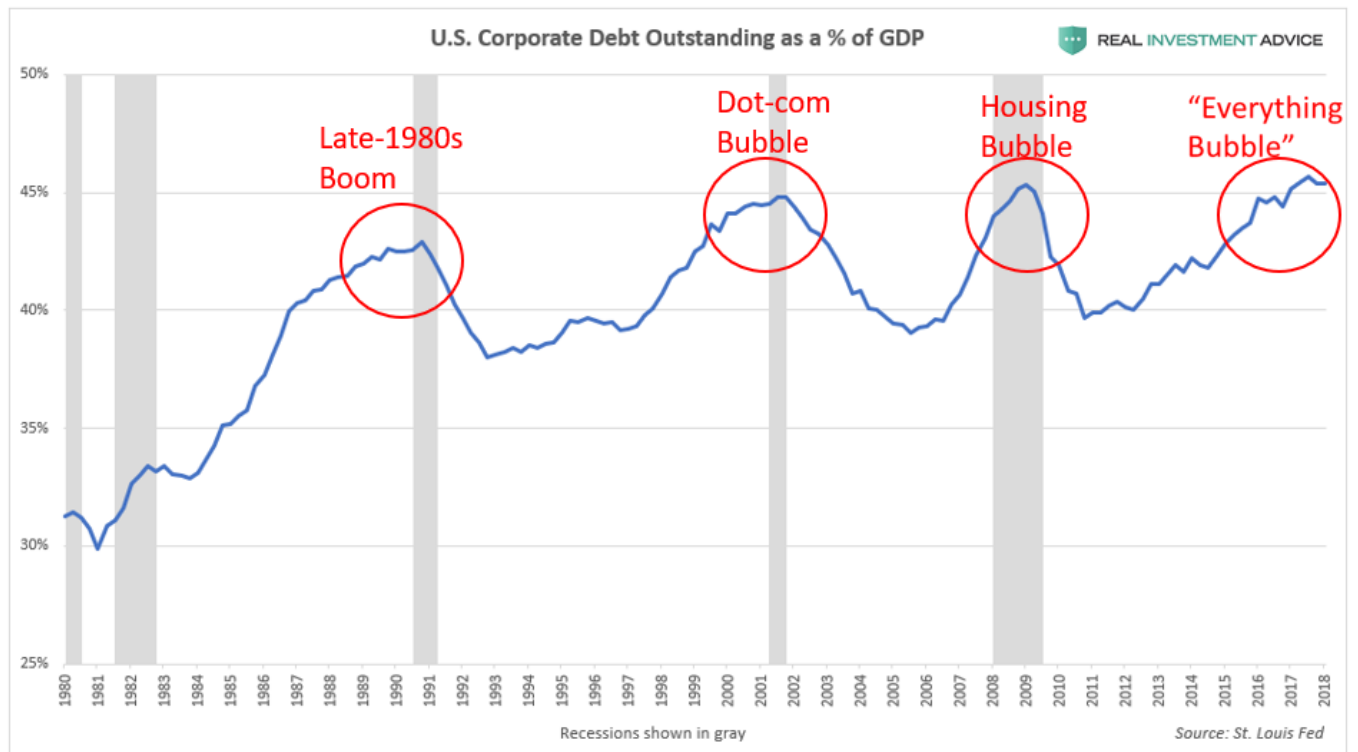
Let's take a quick look back at the list of names we laid out in late September, when we introduced the **'Bubble Basket'** of stocks we thought had at least two to one greater downside to upside, using an October 1st start date for the performance clock. Our objective over the following 12 months was to put 10% in profits in client's pockets from this list, while smoothing the ride of the market. Two months in and we are about 20% of the way there.

The companies in bold face are ones where Stillwater was actively short over the past two months, and the average return was negative 17%. The average for the entire list was negative 10%. During the period the S&P 500 was positive to the tune of 4.7%. Not bad for sixty days' worth of work.

- **Chewy -6%**
- Peloton + 26%
- **Beyond Meat - 47%**
- Slack - 11%
- Uber - 13%
- Lyft + 15
- **Pinterest - 29%**
- **DocuSign + 13%**
- 9F - 1%
- Dynatrace +28%
- SmileDirectClub – 34%
- Revolve Group - 37%
- The Real Real - 28%

While predicting the exact top of the market is nothing shy of a fool's errand, conditions exist today that would indicate we are in the vicinity, as there is a whole slew of indicators that say as much. DoubleLine's Jeff Gundlach sees something similar. Last week in San Francisco he explained that 2019 looks a lot like 2006, and we agree. The Fed 'pivot' can only extend out the calendar, but what it can't do is revoke the economic cycle.

Levered Up Again



Mutual & Hedge Funds

It's been a few weeks since we last teed off on the bad practices of both the public fund as well as the hedge fund set. And since then we've only seen more evidence that not only is there a massive washout happening, it's a very necessary one at that. Each day, the number of 'Zombie' funds grows, as active managers lose assets to ETFs, which in turn clone more dead in the head products, therefore fully saturating the marketplace. This leaves investors, advisors, and allocators wondering when the apocalypse will end.

'Give Us Your Money'

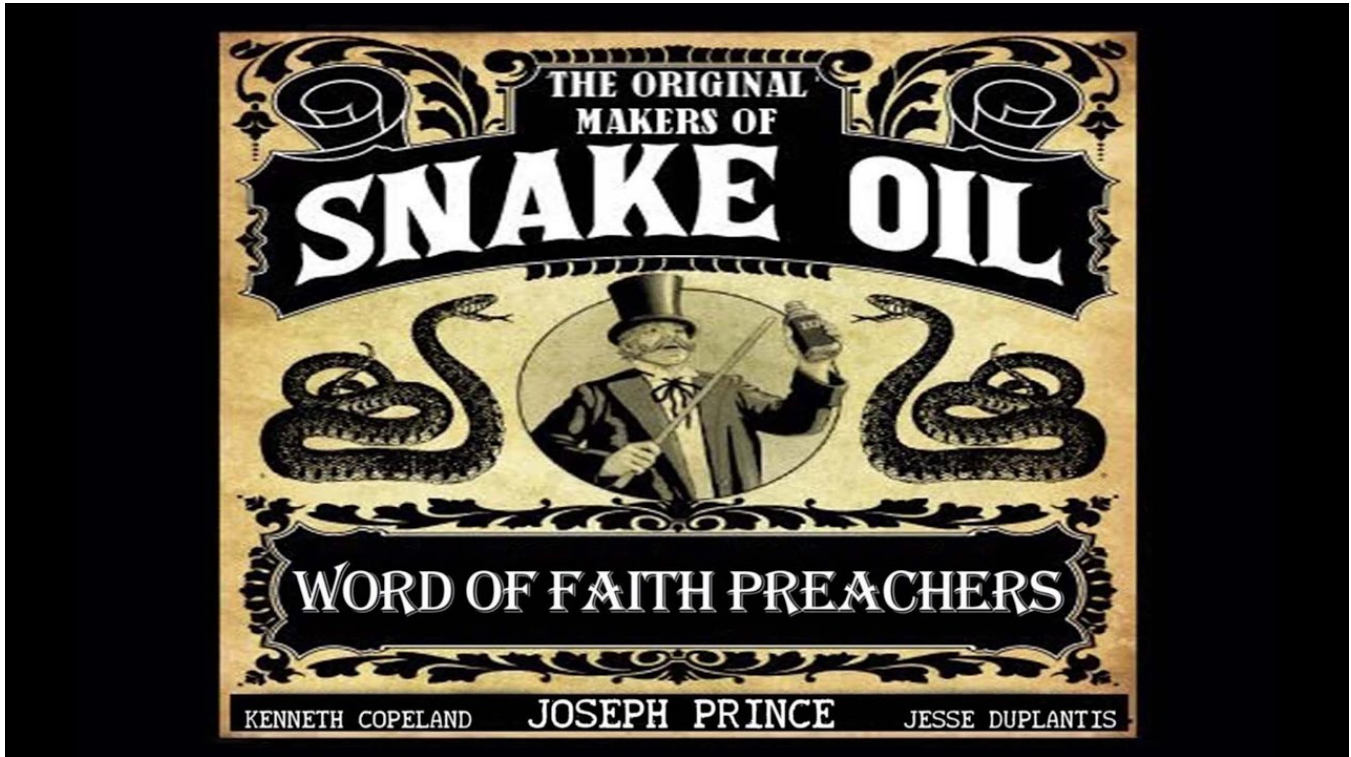


Four of the better stories we have heard or have first-hand knowledge of include...

- An ETF manager that proudly announced a fee cut from .75 bp to .50 bp while their long only product has lost clients 2% since inception. When we asked the firm how paying them less to lose money is a good thing, the lukewarm response proved that this business thrives on those who like a little smoke with their mirrors.
- A manager of a long only core equity strategy came up with a multi-tiered performance-based fee schedule for his fund that is up a whopping 6% this year. You can get almost three times the return from a similar ETF at a tenth of one percent management fee. We desperately tried to convince him of this, but to no avail.
- Two hedge funds we know are re-organizing or giving money back to clients on the back of disappointing results. One was down 20% in the fourth quarter of last year, which means it wasn't really a 'hedge fund' to begin with. The other was making its money being the last in line at the pre-IPO trough. Again, not a hedge fund.
- A firm running a well-known oil centric ETF recently changed its stripes and is converting into a 'sustainable energy' focused fund. After listening to their pitch, we realized that they are most likely going to wind up owning a whole bunch of Apple, Microsoft, Goggle, and Facebook because of their 'low corporate carbon footprint'.

To which we say, nice work guys, way to reinvent yourself as an index fund in an ESG wrapper.

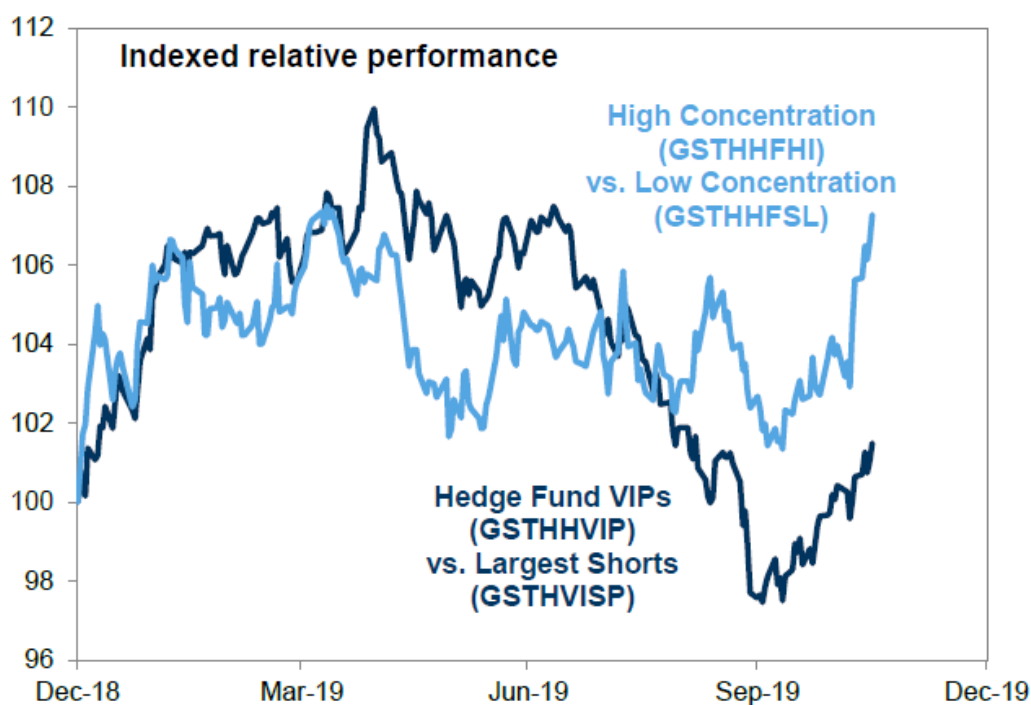
Step Right Up!



Source: YouTube

Goldman Sachs reported this week that hedge funds are making a late 2019 comeback and sitting on an average return of 10% this year. Which doesn't look like much when compared to the 24% for the S&P 500. But on a risk adjusted basis, these funds have done a reasonably good job this year. Too bad they choked it last year, with most losing money in a down year. Whether all of this validates a one and twenty fee structure is up to the markets to decide. Which it basically already has.

Very Important Positions



Barry Ritholtz of Ritholtz Management shares his opinion on Bloomberg that hedge funds and private equity should be more transparent in terms of their holdings, and we could not agree more. That's how we develop and manage our strategies, and we strongly believe the market should be asking others to do the same.

Pershing Square's Q2 2019 Holdings

Entity	Market Value as of 06/30/2019	Shares as of 06/30/2019	% of portfolio 06/30/2019	Market Value as of 03/31/2019	Shares as of 03/31/2019	% of portfolio 03/31/2019
Chipotle Mexican Grill (CMG)	\$1,306,513,000	1,782,710	19.48%	\$1,323,102,000	1,862,710	19.70%
Restaurant Brands Intl. (QSR)	\$1,087,680,000	15,641,065	16.21%	\$1,194,293,000	18,342,703	17.78%
Hilton Worldwide Hldgs (HLT)	\$1,071,841,000	10,966,251	15.98%	\$911,405,000	10,966,251	13.57%
Lowe's Companies (LOW)	\$898,153,000	8,900,535	13.39%	\$1,019,717,000	9,315,033	15.18%
Starbucks Corp. (SBUX)	\$780,783,000	9,313,890	11.64%	\$742,958,000	9,994,049	11.06%
Berkshire Hathaway (BRK.B)	\$748,866,000	3,512,997	11.16%			
Automatic Data Processing (ADP)	\$666,202,000	4,029,526	9.93%	\$643,676,000	4,029,526	9.58%
Howard Hughes Corp (HHC)	\$147,963,000	1,194,793	2.21%	\$131,427,000	1,194,793	1.96%
United Technologies (UTX)			0.00%	\$750,037,000	5,819,203	11.17%
Total	\$6,708,001,000			\$6,716,615,000		

Source: Seeking Alpha

A Hall of Fame member of the Golden Age of Hedge Funds is calling it quits, running public money after a 30-year career of making billions off of large macro bets that paid off. The man in question is Louis Bacon, who started off his career trading \$25,000 he inherited

from his grandmother. Assets at his firm, Moore Capital, started off 2018 at \$13 billion. Today they stand a full 30% lower. Easy come, easy go, as they say. Only this time the ‘come’ side of the equation is looking far less guaranteed.

Louis Bacon



Source: Harvard

Oil & Gas

This week we revisit the oil and natural gas sector, and upon arrival it was almost unrecognizable. Earlier this year, with stocks like ExxonMobil, EOG, and Schlumberger looking like they bottomed, there was the hope that the worst was over. Turns out the guy that said ‘hope is not a strategy’ was right. The situation has only gotten worse.

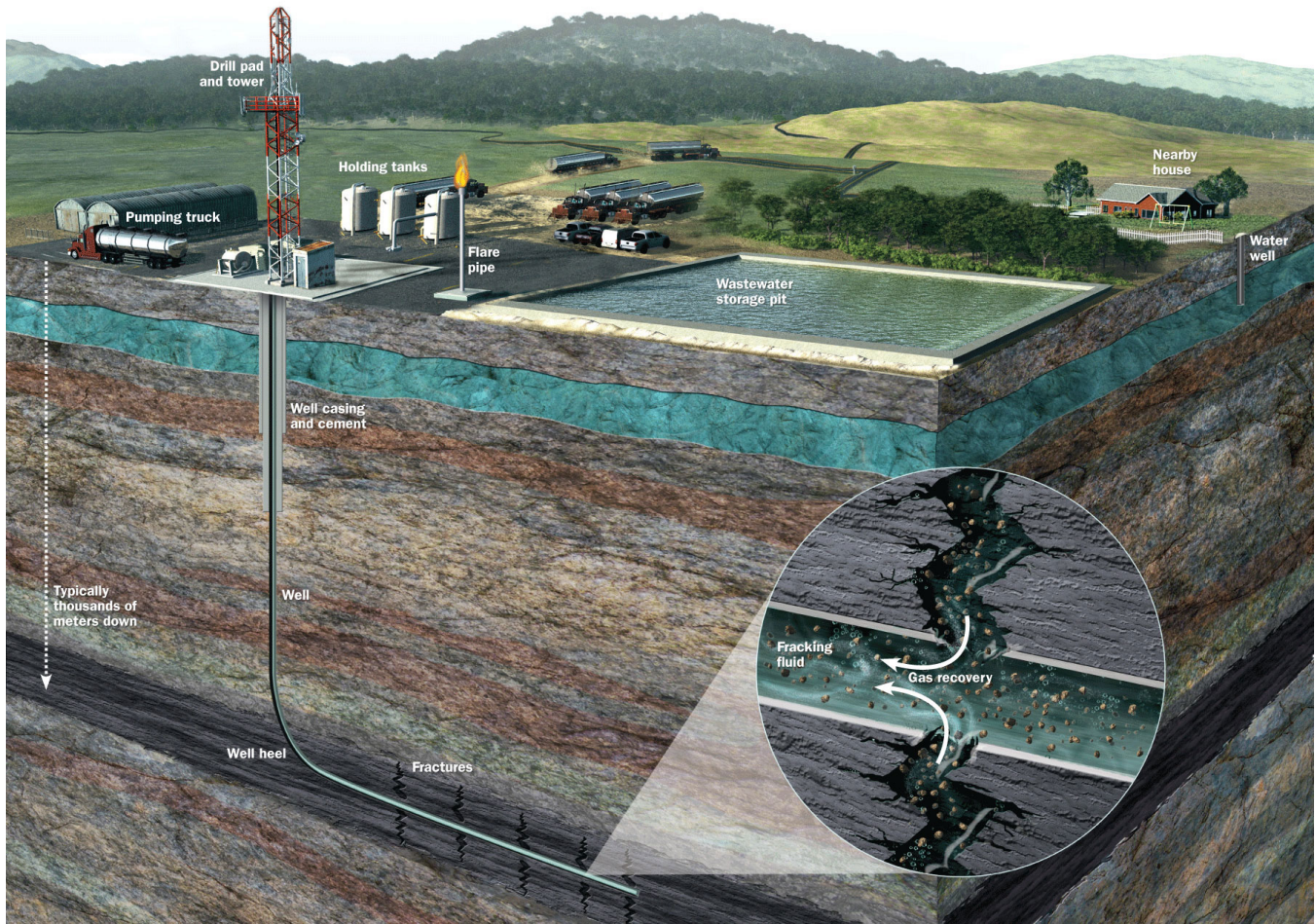
Sunset in the Oil Patch?



Source: MoneyGeek

For a while it appeared as if the exploration and production industry found religion and re-aligned their thinking to focus on cash flow generation and not just production gains. Turns out that was easier said than done, as once you reach a certain crossover point, where lifting costs outstrip the price per barrel, all bets are off. You can pump to your hearts content, and it won't add a single dollar to the bottom line, or more importantly, the balance sheet.

Frack Job

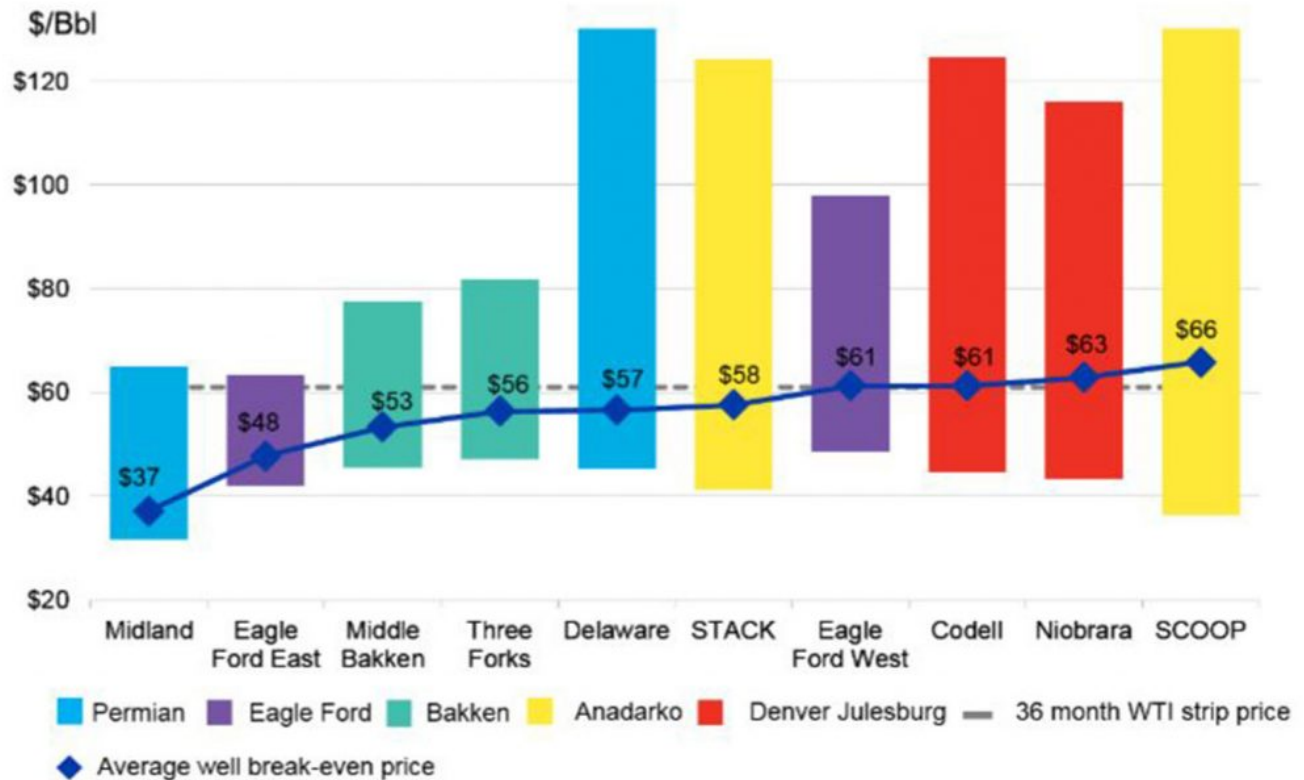


Source: Green Plug

Bloomberg did a great job describing the economics of shale production, including the chart below that explains where breakeven exists for each 'shale play'. Keep in mind, as you look at the numbers, West Texas Intermediary (WTI) crude is currently trading just south of \$60.

Barely There

Lower 48 oil break-even costs curve



Source: Bloomberg New Energy Finance

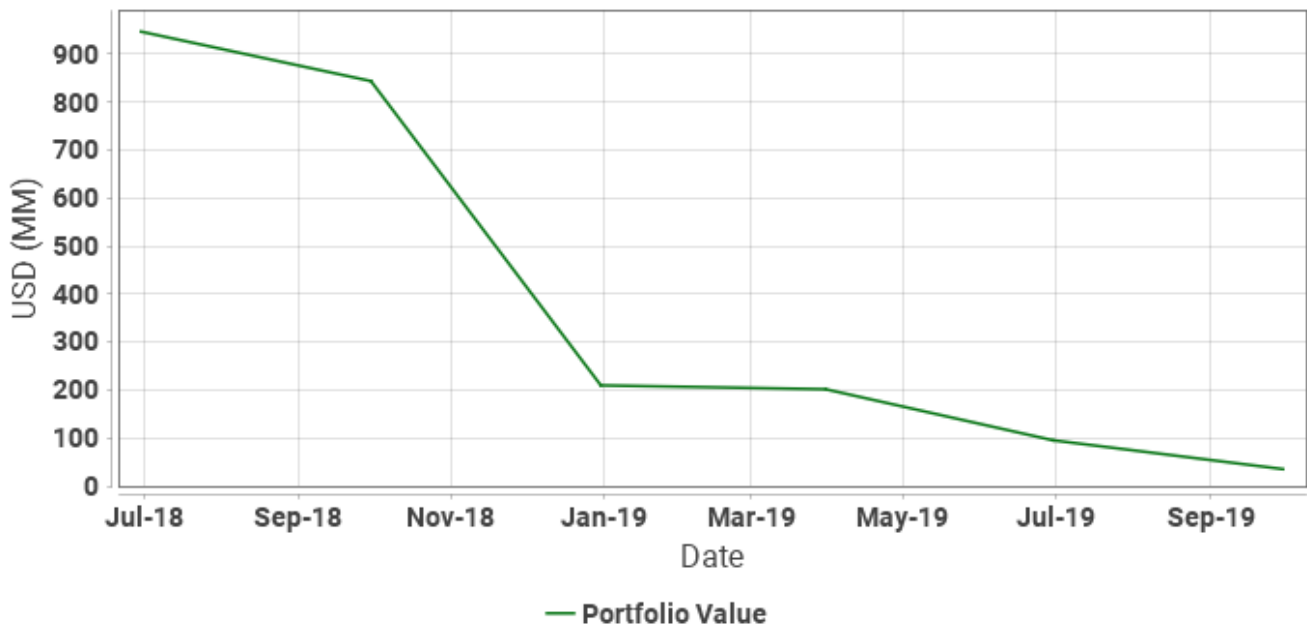
The current black cloud that hangs over oil production is bad news for the Wilks brothers as they took a previous wildcatting fortune and sunk it back into the Permian basin, frac sand companies, and other blank check wildcaters. As reported in the WSJ, they are now facing a day of reckoning, as everything they have touched in the past few years has turned into something worth far less than black gold.

A Billion Here, Big Barrels

Wilks Brothers, LLC

Portfolio Value

Source: Fintel.io



Part of the problem with current U.S. production, is that it's not only made crude and natural gas readily abundant at home, but now the world is awash in the stuff, and due to more arriving through several pipelines that are coming on-line between the Permian Basin and Houston, it's about to get even more saturated. These guys don't care though, the more tankers coming through the shipping channel means even more steel hull induced waves to catch.

Long Ride, No Barrels Though



Source: Pinterest

We bring energy up every so often, but not because it's particularly impactful in the overall economy right now. In fact, it's current move to irrelevance says something about the boom and bust all cyclical sectors face, especially oil and gas. Because of this, the sector provides a great example of how to execute the art of long/short investing. At each stage along the value production chain, the impact of price swings on earnings and cash flow are compounded. From pipelines, to fully integrated majors, to E&P and oil service, all the way down to frac sand, it's all there for the taking.

A Thing of Beauty



Diversions

As Thursday morning dawns, die hards will gather on the grand boulevards of New York, Chicago, Boston, and Philadelphia in anticipation of the annual wander down the asphalt with oversized balloon creatures, holiday garb, and show tunes with jazz hands. The aforementioned are brought to you by likes of Macy's, McDonalds, and in its 99th year, the Dunkin' Donuts Philadelphia Thanksgiving Day Parade.

Gobble Gobble



Source: 6ABC

One thing I am personally thankful for is to never to have to see Matt Lauer's smug mug interrupting my fantasy once again, that Snoopy gets loose and winds up someplace in either Queens or a New Jersey marsh during the Macy's Thanksgiving Day bacchanal.

'Easy There, Big Boy'



As connoisseurs of fine journalism, there are few things we enjoy more than the Wall Street Journal's annual list of Thanksgiving Day touch football rules, as written by Jason Gay. Here are our top ten from the past few years.

- 1) The average Thanksgiving Family Touch Football game in America has eight players, 2.7 divorces, and at least one person who started drinking at 9:45 a.m.
- 2) The following things are prohibited from Thanksgiving Touch Football; spikes, eye black, sticky gloves, Jet's jersey, and running with a martini glass or lit cigar.
- 3) There are only two plays you need to know for touch football. Everybody go out, and everybody go deep. No sticks or bottlecaps.
- 4) Uncle Ron just bought a new Porsche. It would be a shame if the quarterback overthrew someone accidentally and hit Uncle Ron's Porsche. Whoops, sorry Uncle Ron.
- 5) All betting on Family Touch Football is on a CASH ONLY basis. Disputes to be settled later that evening over a Bourbon. What's the worst thing that could happen?

- 6) No showoff football lingo. No screaming ‘trips left’ or ‘zone blitz’. Uncle Ron doesn’t want you to play the ‘Nickel Package’. He wants to get this game over with, have a vodka and stand in the kitchen eating stuffing with his hands.
- 7) In heaven, the Detroit Lions always win! And the Patriots don’t!!!!
- 8) No taunting, cursing, or backhanded compliments. That’s what Thanksgiving dinner is for.
- 9) A Nerf ball is okay, but you should own a leather football. A leather football is one of the things every home must have, like a dishwasher and a bourbon distillery in the garage.
- 10) A little pass interference never hurt anyone. Don’t be such wimp.

Enjoy Happy Thanksgiving



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