

## Stillwater Capital - This Week in the Markets



### *Happy Birthday to 'This Week in the Markets'*

*Dear Readers,*

*Stillwater Capital's "This Week in the Markets" is celebrating its first birthday today. We've come a long way in a relatively short time and plan on keeping a good thing going. We hope you continue to enjoy and appreciate the effort.*

*A warm thank you to everyone who enjoys this publication, and to those who have supported its growth and development. We will continue to do our very best to bring you news and analysis of markets, breaking down what it means to you from a portfolio managers perspective.*

*Your comments and suggestions are always welcome and encouraged as they have helped shape the content of our commentary over the past twelve months. To subscribe please send us an e-mail, [contact@stillcap.com](mailto:contact@stillcap.com). Forwarding to others who enjoy the content is appreciated as well.*

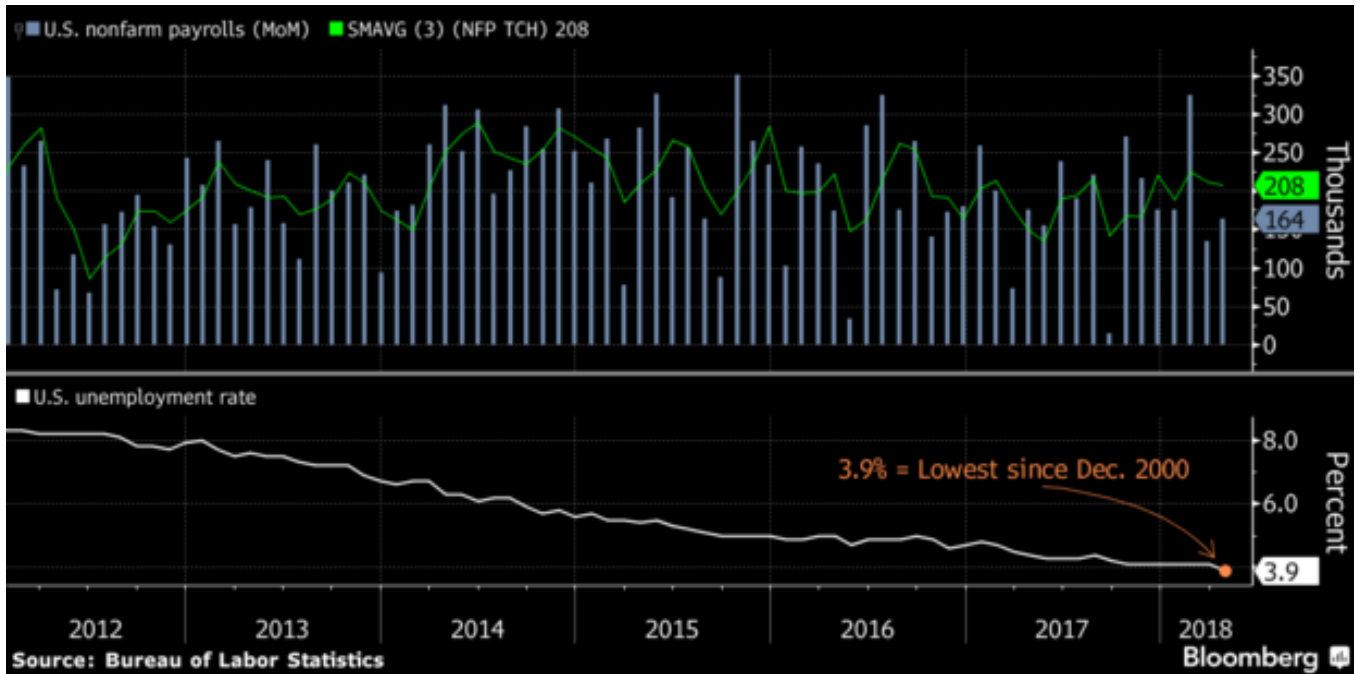
*Bryan Goligoski  
Stillwater Founder & Editor*



### *The Top- Down*

The April jobs number was released this morning and the economy continues to add a healthy number of people to the payrolls, as 164,000 more interested bodies found jobs as the unemployment rate dropped below 4.0%. Wage growth continues to pick up as late cycle inflation takes hold.

### **The Jobs Picture**



Source: Bloomberg

The Beverly Hilton was the place to be this week as the Milken Global Conference took over the iconic hotel, and the greater 90210. The event took place not far from where Milken worked his junk bond craft for Drexel Burnham in the 1980's.

### Michael Milken at Drexel



Source: Bloomberg

Panelists and presenters included masters of the universe from Wall Street to Washington, referring to both the state and the District.

**Milken, Broad, Kagame, Blair, Gates, and Villaraigosa**



Source: The Milken Institute

The event, sponsored by the Milken Institute, continues to grow in prominence as the price for access begins at \$12,500 . Scroll to see what scratching a check of that size gets you. Including one for the \$50,000 ‘Presidents Circle’.

For those who didn’t pony up to press the flesh this year, there is always the poor man’s version provided by CNBC and Bloomberg.

*Stillwater View: It’s hard to describe what the conference is like unless you are on the ground to experience it first-hand. While we strive to be short on hyperbole, you can’t underestimate the size of the opportunities presented by showing up and being curious.*

*Special thanks to CohnReznick, Canyon Partners as well as Jim Hedges and the Epic Foundation for the hospitality they showed us this week.*

Jeff Gundlach, founder and CEO of DoubleLine, will be hosting a conference call next week focused on asset allocation in the fixed income markets. While his comments will likely be tame compared to those he makes during his annual ‘Just Markets’ call, he retains the ability to move markets even when the governor is on.

**Jeff Gundlach**



Source: DoubleLine

*Stillwater View: Like most everyone else who enjoys a perch on Wall Street, we too listen to what Jeff has to say and will again next week .*

### **The Bottom-Up**

Around the horn once again as the last big week of earnings is now behind us. This time around we have the **Good**, the **Mediocre** and the **Downright Bizarre**

### ***The Good***

Apple came through with flying colors after reporting a quarter that put concerns about a slowdown in iPhone sales to rest, at least for now. As C|Net reports, Wall Street got it (very) wrong. And like a moth to flame, CNBC reports what every major Wall Street analyst had to say about it.

### **Lemming Season**



Source: Hedgeye

Last week Microsoft announced earnings that included a 24% year-over-year increase in Xbox related revenues. This tailwind is the product of an online gaming sensation called Fortnite. Which helps this author reconcile that the epidemic wweeping our home has at least produced some good, or at least profits.

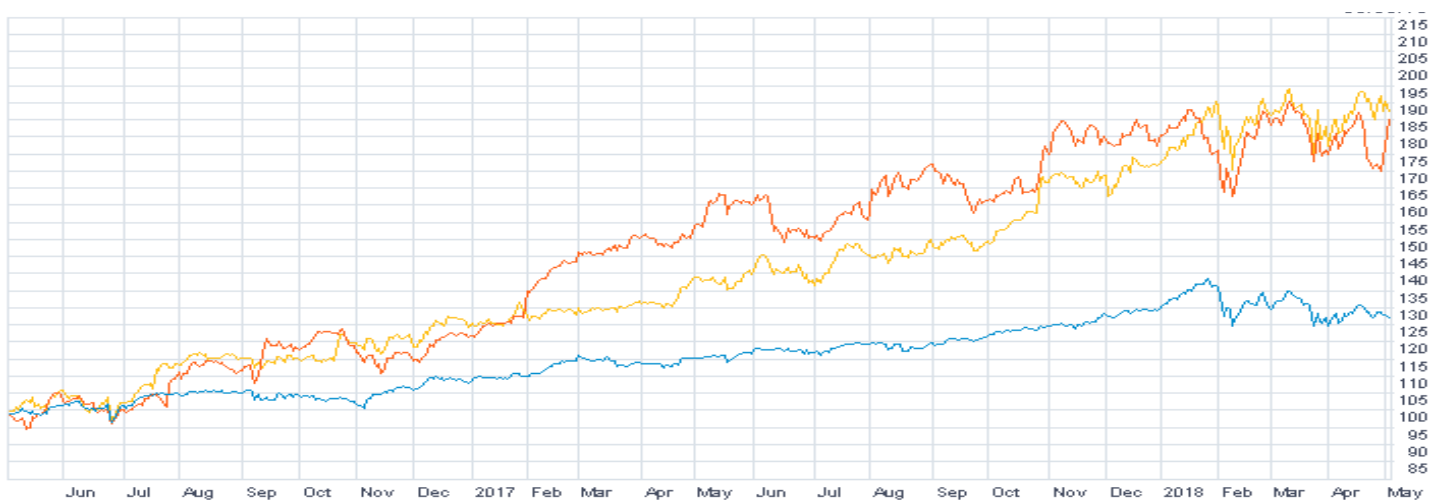
### **Fortnite Cast of Characters**



Source: MMO Examiner

*Stillwater View: Microsoft and Apple have been 'one decision' stocks for the past two years. Even as the companies mature they become beautiful cash generating machines with balance sheets that are the envy of the market.*

S&P 500, Microsoft, Apple

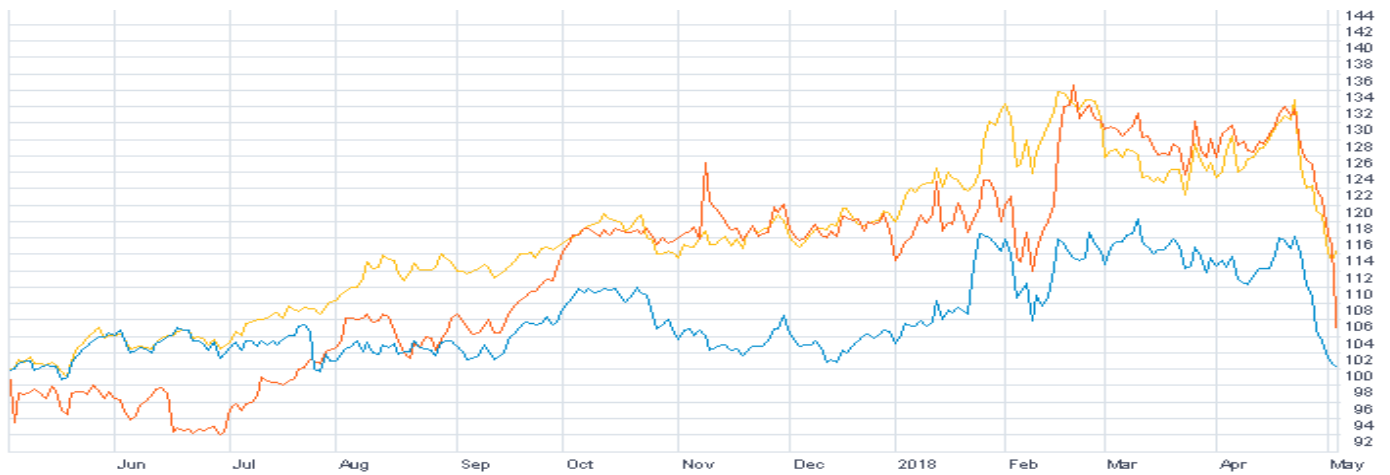


Source: Nasdaq

## The Mediocre

Huntington-Ingalls, the Navy's largest ship supplier and a company we own, took it on the chin with the rest of the defense contractors again this week. Even though earnings came in 30% ahead of last year while on the call with analysts, the company CEO Mike Petters, called this 'the most exciting time' in 30 plus years. The market yawned and the stock went down 10% on Thursday, extending the messy losses for the defense group for yet another day.

Lockheed, General Dynamics, Huntington-Ingalls



Source: Nasdaq

*Stillwater View: One explanation for the weak performance in the past month has to do with the cooling of tensions on the Korean peninsula and how a strong tailwind has quickly gone flat. Bottom line, turns out missiles flying over Guam is better for business than declaring a war that has been over for 50 years to finally be over.*

**Who Has Two Arms and Wants a Hug?**



Source: Saudi Gazette

*A fellow colleague, who happens to be a well pedigreed veteran of the markets, and I had a conversation this week about the rotation we have been seeing lately with sectors coming in and out of favor faster than either of us have previously experienced.*

*Regardless who you blame (it's the quants) these moves makes for a tough environment to own and short sectors with much conviction about fundamentals driving value. But as we have become accustomed to saying, 'no crybabies in the casino'. Dealer up!*

### **The Downright Bizarre**

Snap Inc had another tough week as the social media company announced that earnings would be less robust than Wall Street thought. The company blamed the app redesign and seasonality. Investors were having none of it as the stock plunged to an all-time low after a conference call that left some listeners scratching their heads. Bloomberg reports on what the analyst community had to say.

The situation at Snap pales in comparison to what took place at Tesla this week when Elon Musk went rogue on a conference call with Wall Street following earnings. Words like 'bizarre' and

'surreal' were echoed by many as the CEO took out the ugly stick and smacked those that asked 'boring' questions around. Jim Cramer thought it was the best thing since sliced bread.

### Tesla & Snap Inc.



Source: Nasdaq

### **Up & Down Wall Street – The Berkshire Annual Meeting**

Warren Buffett and longtime friend and partner Charlie Munger, will once again provide shareholders of Berkshire Hathaway and the rest of the investing world with a look inside the beautiful machine at the company's annual meeting this weekend.

CNBC will bring you as much event coverage as they possibly can It's starting early as the network's 'Buffett Whisperer', Becky Quick, was coming live from Omaha this morning. Reporting that the Oracle had been a big buyer of stocks in the first quarter. Using the confusion related to iPhone sales as an opportunity to purchase more shares of Apple.

Monday's coverage starts at 6:00 am...Eastern. For those looking to get their full Buffett fix they can tune in to CNBC tonight and watch "Warren Buffett: Investor. Teacher. Icon."

### **Century Link Center in Omaha**



Source: Omaha.com

Speaking of one decisions stocks, Berkshire could very well be the single greatest example ever. A \$10,000 investment in BRK.A in 1964, would be worth over \$240 *million* today. Not bad for a company that was born when two old textile companies formerly known as Berkshire Fine Spinning Associates merged with Hathaway Associates, merged together in 1955.

**Berkshire Hathaway Mills in New Bedford Mills, MA**



Source: The Wall Street Journal

### *Diversions*

Down the stretch they will be coming on Saturday, as the Kentucky Derby takes place at Churchill Downs in Louisville. The New York Times provides a full review of the field, including Stillwater favorite My Boy Jack followed closely by Free Drop Billy. Both currently trading at 30 to 1.

### **Churchill Downs**



Source: Churchill Downs

*Stillwater View: Our pick to click is a boxed trifecta with Bolt d'Oro, My Boy Jack, and Free Drop Bill as the underlying longs.*

Anthony Bourdain will be making an appearance in Santa Barbara next Wednesday when he will headline UCSB's Arts and Lectures 2018 benefit at the Historical Museum. Tickets are available to those who plunk down the \$10,000 for a table. Last time he was in town you could attend a meet and greet at Joe's Cafe for \$500. Who says inflation is dead!

**Anthony Bourdain**



Source: NPR

*Stillwater View: Face it, we have all said these words, “I want that guys job”. Now who out there has my Wednesday night miracle?*

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