

This Week in the Markets



The Top- Down

Rumors are now swirling that president Trump is listening to the market, and in response he will ratchet back the trade war rhetoric with China. This news resulted in a strong market bid which has continued since Thursday when the news first broke. Though Merrill Lynch's chief global economist Ethan Harris is taking the other side, saying the spat will continue for some time.

Rally Mode



Source: Bloomberg

Time will tell if it's fake or real news, but one thing we know for certain is that Davos will be a lot less on edge this year, as Trump ordered the US contingent's trip to the global gathering in the alps to be cancelled.

The Davos Intercontinental



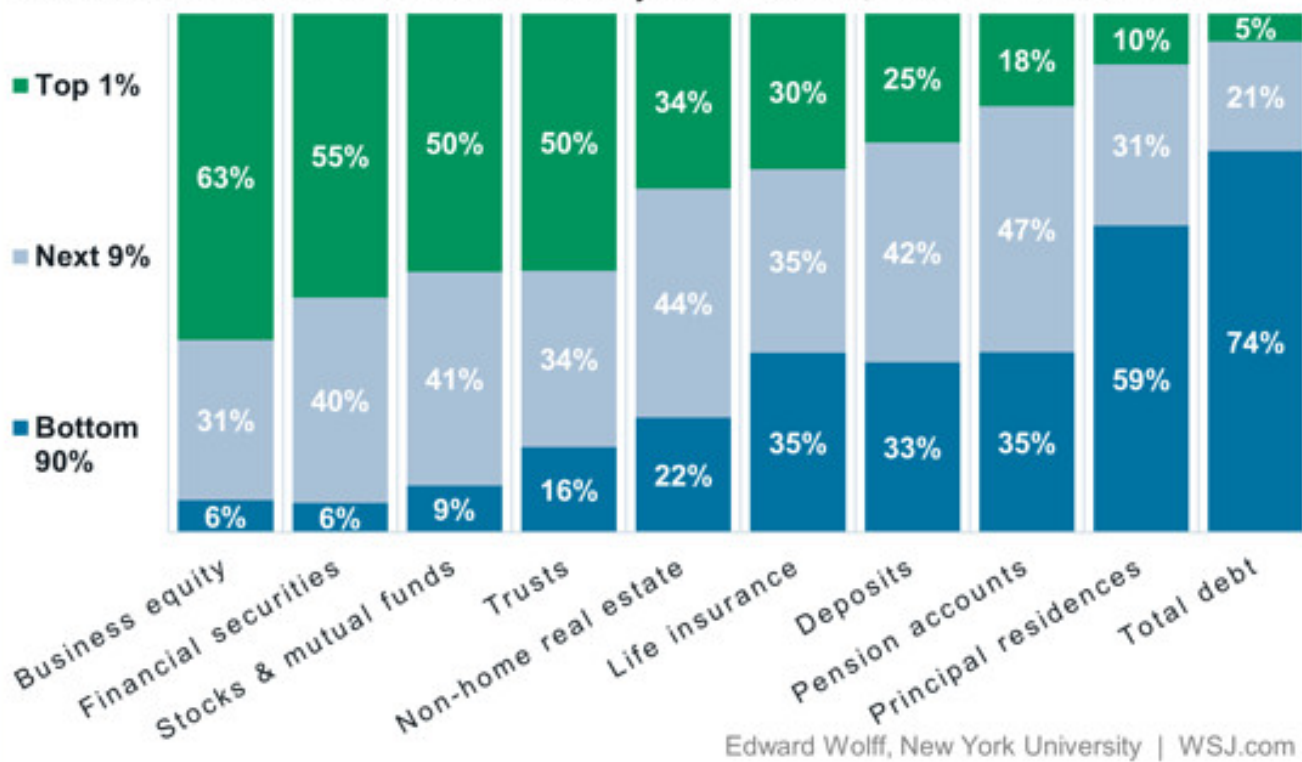
Source: IHG

Goldman Sachs believes the stocks market correction might have an impact on how the rich like to spend, and that's not good news for the likes of Nordstrom. The retailer confirmed as much on Tuesday when it said sales were coming in below plan. It is still surreal to think that the top 1% of the population owns 50% of all household equities.

Trickle Down

Ownership Society

Percent of total assets and liabilities held by wealthiest 1%, next 9% and bottom 90%



Source: The Wall Street Journal

With all the action focused on the equity side of the ledger, the bond market has been getting overlooked. Since peaking at 3.21%, the yield on the 10-year treasury has come in at a none too small 38%, when we had a 2.65% low last week.

Prices Up, Yields Down



Source: The St. Louis Fed

The Bottom Up

The prospect that all the bad news has been priced into stocks is beginning to look like it might be a reality. Exhibit A, the left for dead financial sector. This week we got earnings from Citigroup, Morgan Stanley, and Goldman Sachs, among others.

Trading revenue continues to suffer even after the return of volatility, which means you can't win for trying. And it looks like SocGen is about to stop doing the latter all together. The big takeaway, while it's not sunny and 72 in banking land, it's also not the nuclear winter that bank stock prices might suggest.

Peace Out



Source: Youtube

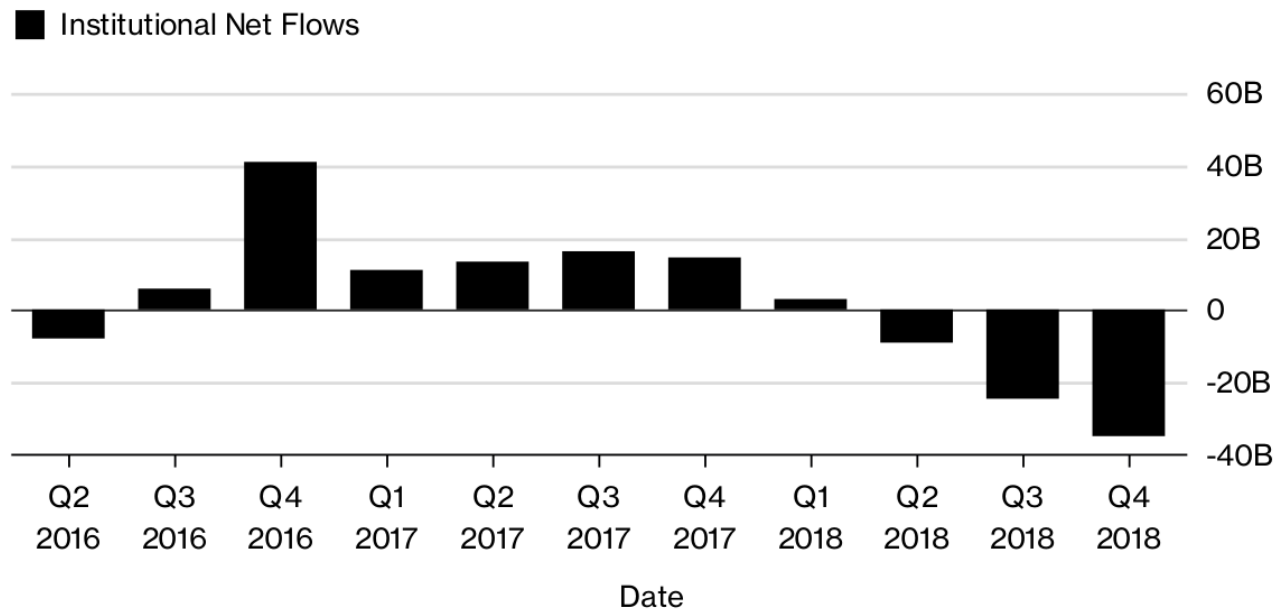
Before everyone gets too giddy about the resurgence in financials, look toward BlackRock's earnings for a dose of sobriety. Institutional investors continue to flee the world's biggest asset manager, and that's not a good sign for the rest of us.

The firm's CEO, Larry Fink, gave his predictions for 2019 on CNBC, including that the bottom has been put in the market, at least for now.

The (Negative) Pace is Picking Up

BlackRock Institutional Outflows Deepen

Institutional investors pulled money from BlackRock funds for 3rd straight quarter



Bloomberg

While the rest of the market was partying like its January 2018, Tesla is sitting this one out. Things have been quiet in the factory since last year's drama, but alas no more.

This week, CEO Elon Musk admitted this is going to be a year of transition, so much so that 7% of the company's workforce will need to find employment elsewhere, the main culprit given is the profitability, or lack thereof, of the Model 3. The stock fell 10% on Friday, despite being a strong up day for the market. Let the 'bull' v. 'bear' debate continue.

Profit Squeeze



Source: Quick Electron

Up & Down Wall Street

The patron saint of Wall Street has gone on to the big index fund in the sky, as Jack Bogle passed away at the age of 89 on Wednesday. Mr. Bogle founded Vanguard and opened the first broad market index strategy in 1976. The firm had grand hopes of raising \$150 at its opening, although a paltry \$11 million showed up.

Today, the Vanguard 500 fund has \$400 billion in assets. Turns out Mr. Bogle had to fail and get fired before he would succeed. Upon his passing, Wall Street veterans of every variety heaped praise on the man who forever changed how the game is played.

Jack Bogle



Source: Philly Mag

The reminder of Mr. Bogles influence was felt once again this week, as Morningstar reported that \$143 billion of actively managed assets walked out the door in December, this being the worst month for outflows in history, bringing the outflow total to \$300 billion in 2018, a number that has only been bested, or worsted, once when \$320 billion left the active side in 2016.

The Beat Down Continues

Figure 1: The share of passively managed funds: US equities



Note: Data quality prior to 2010 is suspect due to jumps - these likely occur as our vendor maintains less than complete coverage prior to that.

Source: EPFR Global

Figure 2: Cumulative flows: US equities



Source: EPFR Global

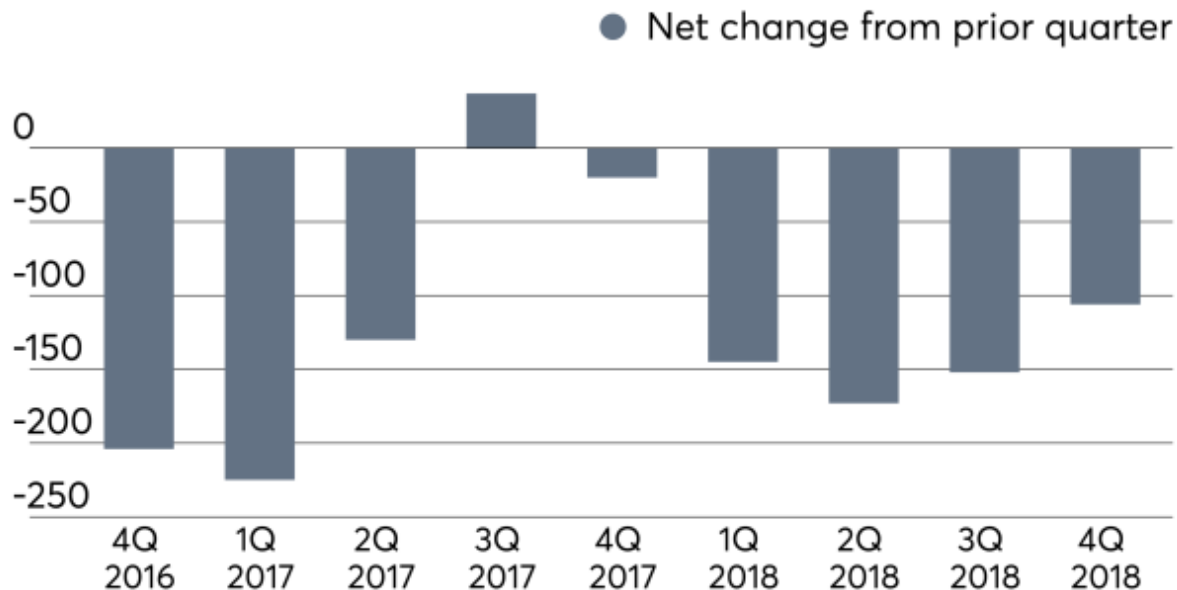
Source: Zerohedge

Wells Fargo continues to suffer the fallout from the 2016 sales practice scandal. This week, *Financial Planning* reported that the advisor headcount continues. Wells has only seen growth once in the last nine quarters. And since announcing the boiler room sales tactics employed by the firm, roughly 10% of the firm's financial advisors have left.

Wells Needs to Get Back on its Wagon

Attrition persists at Wells Fargo

The firm has reported net declines in advisor headcount since a phony accounts scandal came to light in 2016.



Source: Company data

Source: Financial Planning Magazine

Jana, the one-time \$12 billion hedge fund in New York, is shutting down two of its primary funds, the Jana Partners and Nirvana funds. The former fell 9% last year, while the latter gave up 14%. Insert your own 'Nirvana' joke here. Given that the fund can bet against stocks or the market, that performance is going to be very tough to sell. *The Wall Street Journal* reported that the firm's assets under management have fallen to \$3.5 billion.

Meanwhile, *Bloomberg* reported what the world already knew, hedge fund performance sucked again last year, and the 'road to irrelevance' continues.

Just Like Nirvana...Only Different.



Source: bkmag

While these pages are kept as commercial free as possible, we would be fools to not highlight that Stillwater's hedged equity income strategy returned 3.70% last year. This was against an average 8% loss for long only equity income strategies and a similar loss among the Morningstar equity long/short mutual fund group. The back of the envelope math has us 12% ahead of our cohorts. As always, past performance is no guarantee of future results.

Pop The Cork



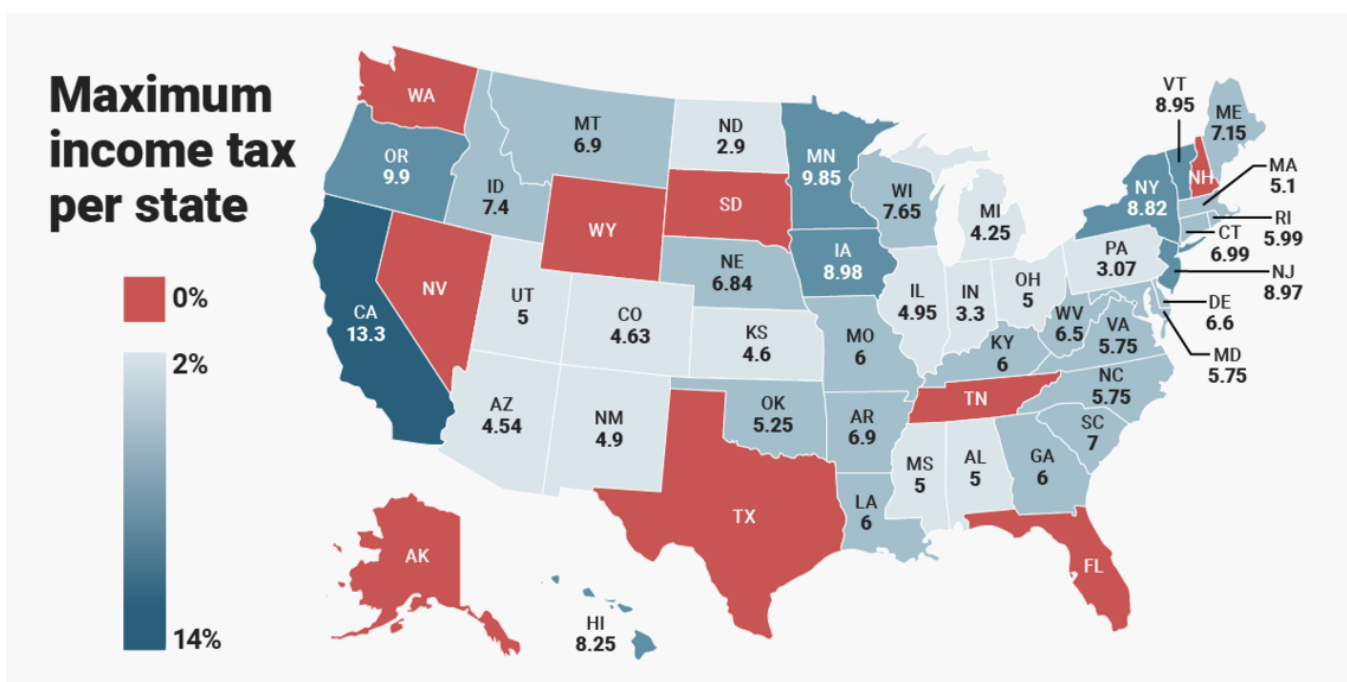
Source: The Wall Street Journal

For those hedge fund managers like David Tepper, who *are still* on top, moving to a tax friendly state is looking better by the day. *Bloomberg* says that high end home sales in Florida are up big for those looking to get away from New York and New Jersey's almost 9% state income tax.

Both or those are eclipsed by California's near 13.3% state tax. And don't expect any relief under Gavin Newsom, as he didn't last seven days in office before handing out gifts to the 'hands that brought him'.

For states like Florida, Texas, and Wyoming, all of which have zero state income tax, less is clearly more. Alaska can't be that bad in February, right?

“Oh Give me a Home, Where my Taxes Won't Roam...”



Source: Business Insider

Diversions

The markets are closed on Monday, as our country celebrates the birthday and legacy of Dr. Martin Luther King, Jr. , the actual day of his birth being January 15th, 1929. It wasn't easy to get the legislation passed, as South Carolina Senator Jessie Helms led the opposition over concern that King was a communist.

The bill that created the holiday was signed into law by president Reagan in 1983, with Coretta Scott King joining him at the White House for the occasion. When asked if he thought that Helms' fears were real, he responded, 'Well, we'll know in 35 years', a reference to when the FBI would make public King's file.

The Dream Realized



Source: USA Today

While many of King's speeches, including his iconic "I have a dream", are well known, a long-lost speech given at UCLA, themed 'Segregation must die', was found by an archivist almost 45 years after it echoed off the walls of Wilson Plaza.

Dr. King with Ucla Chancellor Dr. Franklin Murphy



Source: Daily Bruin

As regular readers of this publication know, the author and editor is a proud alum of 'Harvard on the Pacific', better known to us as the University of California, Los Angeles. While it's been a long journey through the shadowlands to find joy in our football or basketball programs, gymnastics is another story.

The soon to be retired Valeria Kondos-Field, or Ms. Val to anyone that knows her, has made the program truly special. And this month, one of her athletes, Katelyn Ohashi, performed a floor routine that scored a perfect 10 and has the internet buzzing with 50 million views.

The media soon picked up on it as well, with the *New York Times*, *Wall Street Journal*, and *Los Angeles Times*, calling it 'pure Joy'. The *Journal's* Jason Gay went so far as to call it probably the best sports moment of the year, or at least one that will be tough to beat. All I really know is that Katelyn did a bunch of amazing moves, none of which I could even if my life depended on it.

Go Bruins!

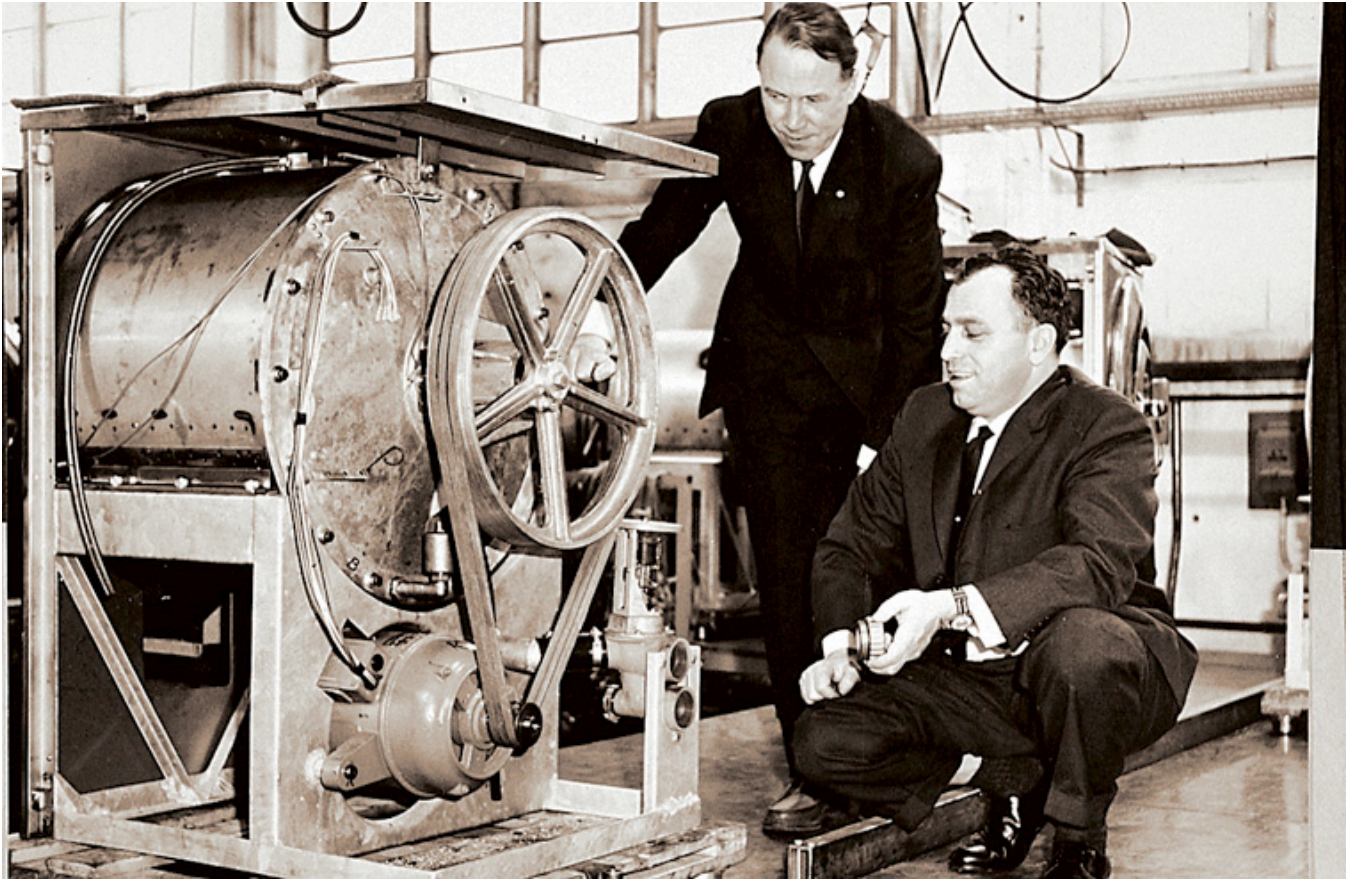


Source: The Los Angeles Times

While the *'Diversions'* section tries to keep it light and easy as you head into the weekend, sometimes we pass along stories that are inspirational, even in memoriam.

Born as a Jew in eastern Poland, Bernard Milch, would survive the holocaust but most of his family wouldn't. Shortly after the war he emigrated to the United States with \$8 in his pocket. By chance or by luck, he was assigned to inspect the washing machines on the Stockholm, the ship that collided with the Andrea Doria off Nantucket. Upon finding them in good working order he contacted the maker in Sweden, named Wascator, and became their North American sales rep.

Bernie in the Early Days



Source: Laundrylux

Mr. Milch would parlay his good fortune into the company Wascomat, that would sell and maintain the washers and dryers, as well as counsel entrepreneurs and immigrants into how to setup laundromats, and would eventually end up financing many of them . Bernie passed away earlier this month at the age of 93. His favorite quote, ‘the streets are paved with gold, you just have to know where to look.’ Well said, Bernie, well said.

The Wascomat 140 G-Force



Source: Wascomat

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