



October 13, 2017

Stillwater Update

Stillwater's "This Week in the Markets" continues to thrive and grow. Readers are welcome to forward the weekly piece to clients, colleagues and friends who find it insightful. To subscribe please e-mail contact@stillcap.com. Comments and questions are welcome and always encouraged.

The Top-Down

In an interview with *CNBC's* Steve Liesman on Thursday, Boston Fed President Eric Rosengen commented that he thought equities were "[fully priced](#)". He also shared his view on commercial real estate saying, "I think the valuations are quite rich compared to historical experience,"

Goldman Sachs strategist [David Kostin](#) was out this week saying that "There's no value anywhere in the market. Everything trades at high levels. And everything trades in a well-ordered fashion." He added that the market has not discounted the potential impact of tax reform passing and the \$8 it would add to aggregate S&P 500 earnings. Goldman assigns a 65% chance of successful passage.

Meanwhile, estimates for global growth are on the rise and fears of missing out on the market rally grow by the day.

[Global Earnings Estimates Rising in 2017](#)

Unusual Upgrades

Global earnings revised upward on bets of growth, inflation



Source: Bloomberg

It was a quiet week in the U.S. for economic news while the market's attention is focused on the incoming Fed chair. The one release of note was the September Consumer Price Index released this morning. Core CPI came in with a [benign rise of 0.1%](#), in-line with what the market expected. The broad measure of consumer inflation is setting the pace at an annualized rate of 1.7%. Futures rose slightly on the news.

Trump whisperer [Tom Barrack](#) came off the sideline this week to publicly air his dissatisfaction with the president's recent behavior. "He thinks he has to be loyal to his base. I keep on saying, 'But who is your base? You don't have a natural base. Your base now is the world and America, so you have all these constituencies; show them who you really are.' In my opinion, he's better than this."

Billionaire Real Estate Investor Tom Barrack



Source: The Washington Post

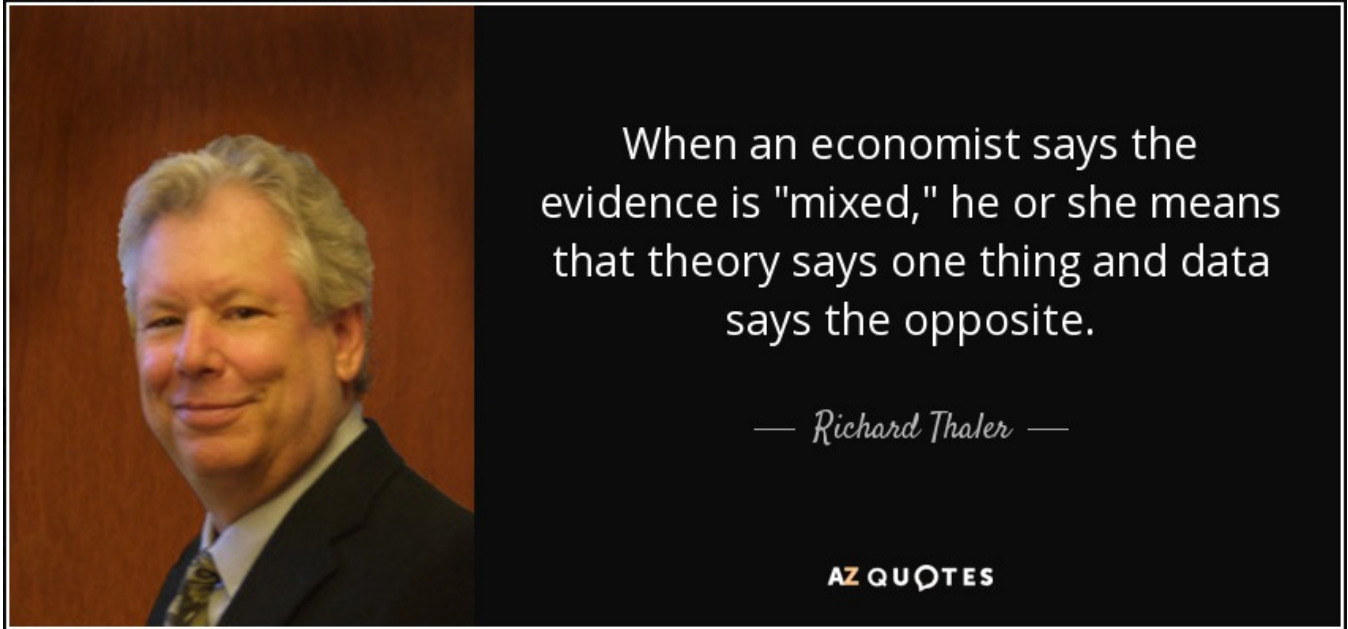
Stillwater View: Well said, Tom. The world is waiting to see if your counsel has an impact.

Every bull market has a foundation built on both the real and imagined, this one is no different. Accommodative monetary policy, balance sheet repair, global reflation, robust earnings growth, shiny objects and the embrace of risk; it's all there. The current leg, inspired by tax reform and a new more favorable business environment, has risk that is not priced in.

Behavioral economist Richard Thaler, fresh off being awarded the Nobel Prize, [took a jab](#) at the president saying, "his ratio of certitude to knowledge is nearing record highs". He also took a jab at what the market was discounting.

"Who would have think that the stock market would just continue to go up" during "what has to be the most uncertain times of my lifetime," Thaler said. "Surely it can't be based on the certitude that there will be a massive tax cut, given the seeming inability of the Republican Congress to get their act together. So I don't know where it's coming from."

Nobel Prize Winning Economist Richard Thaler



Source: AZ Quotes

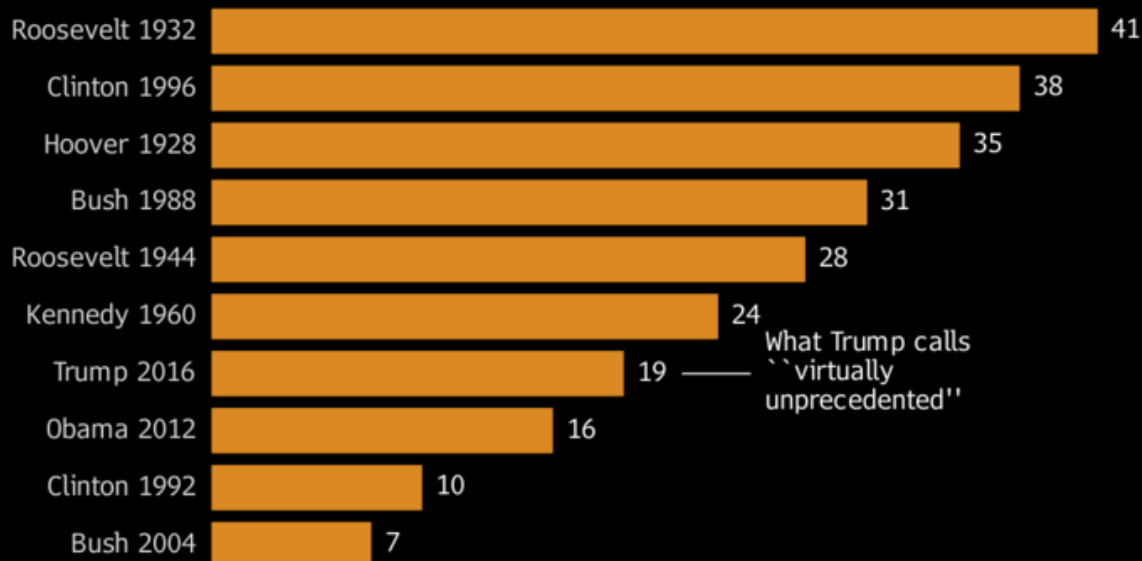
Turns out the Trump rally is not as [“virtually unprecedented”](#) as the president claims. It ranks seventh on the top-ten list.

The Ten Best Post Election Rallies

Tallying Trump Rally

It's ranked seventh-best in presidential history behind Kennedy

■ S&P 500 performance in first 11 months after election (%)



Source: Bloomberg

Bloomberg

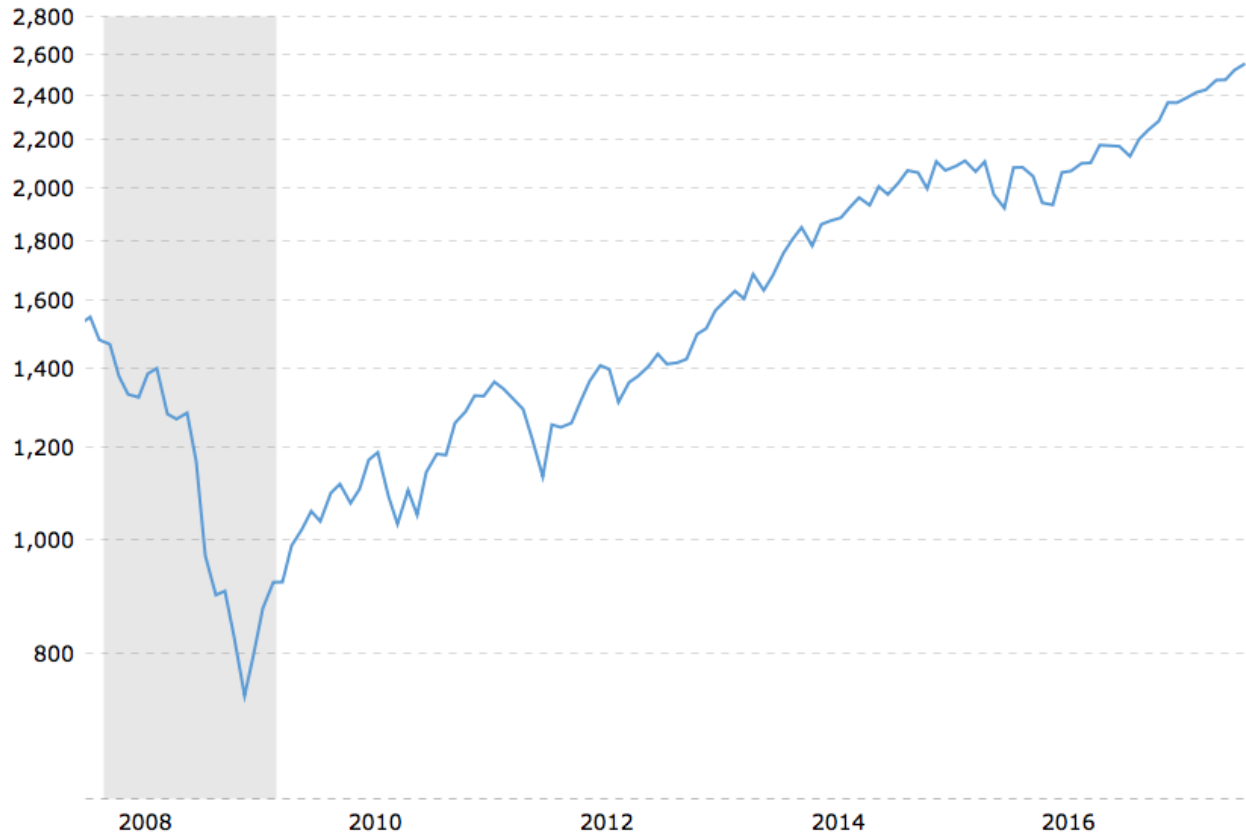
Source: Bloomberg

Stillwater View: While some think Barack Obama wasn't much of a capitalist, he did make a rather prescient market call on March 3, 2009. When asked about the wildly gyrating stock market he counseled that there may be [some value](#) there.

"You know, it bobs up and down day to day. And if you spend all your time worrying about that, then you're probably going to get the long-term strategy wrong." He went on to say, "Profit and earnings ratios are starting to get to the point where buying stock is a potentially good deal if you've got a long-term perspective on it." The market bottomed six days later.

The cynics in the crowd mocked his 'profit and earnings ratios' miscue while those that got long the 'Obama Bottom' trade owned the S&P 500 at 676. It closed yesterday at 2,550. A gain of 277%.

The 'Obama Bottom' Trade



Why Is This Man Smiling?



Source: Getty Images

For those keeping score at home, President Trump has been calling the market a bubble since Dow 18,000. *The New York Times* [chronicles his comments](#), including what he said at the first national presidential debate with Hillary Clinton.

“The only thing that looks good is the stock market, but if you raise interest rates even a little bit, that’s going to come crashing down,” [Mr. Trump said](#). “We are in a big, fat, ugly bubble.” That was 12 months, 5,000 points and 27% ago.

Stillwater View: All presidents inherit a set of economic circumstances and navigate according to the mandate they feel they have been given. Policies, like elections, have consequences. It’s our job to make sense of them and navigate accordingly, steering assets towards profitable outcomes.

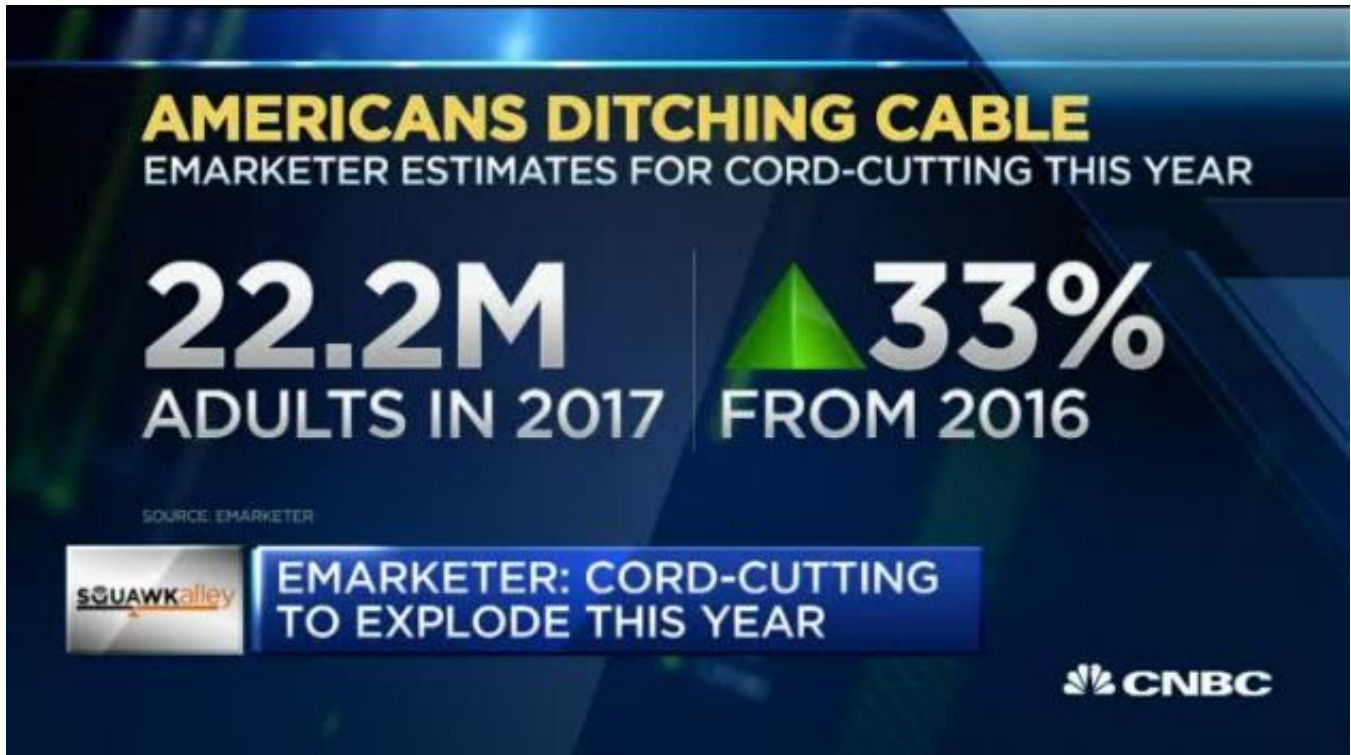
The Bottom-Up

Proctor & Gamble claimed Nelson Peltz lost out in his [proxy fight](#) to gain a board seat. Mr. Peltz is not giving up yet. He asserted that the \$60 million fight was [a dead heat](#) according to the New York Post. And that all votes need to be counted before he would concede.

Bank earnings started to come in this week with [J.P Morgan and Citi](#) reporting yesterday and [Bank of America](#) and [Wells Fargo](#) today. Out of the gate, lending is holding up and trading is disappointing, while the latter has been well projected. Financials, which have rallied in the last few weeks, took a breather on the news.

AT&T traded down 6% on Thursday when [subscriber losses](#) at DirecTV were higher than anticipated due to increased cord-cutting. The rest of the cable and satellite sector sold off as well. Long time industry watcher Craig Moffett said they were all suffering the ravages of [cord-cutting](#), and its not going away anytime soon.

Estimated Number of Cord-Cutters in 2017 - eMarketer



Source: CNBC

A phantom [‘own goal’](#) and general inability to close out an opponent, have cost the United States a spot in next year’s soccer World Cup. This will be the first time since 1986 that the Americans failed to make an appearance.

Media companies were already having a tough month and the loss only added to Fox’s woes. According to the [New York Times](#), the company paid more than \$400 million for the broadcast rights. Also on the hook are Verizon and Volkswagen who paid to sponsor the halftime show. Turns out we [Americans only watch](#) if our team is in it.

Stillwater View: [“I Believe That We Will Win!”](#) Just not this go around.

Brazil’s Pele Celebrating a Goal During the World Cup



Source: Sports Illustrated

Up and Down Wall Street

Distressed retail investor [Sycamore Partners](#), has [announced the upcoming launch](#) of their third fund later this year. Fund III is looking to raise \$4 billion to take advantage of market segments where brick-and-mortar retailers are under pressure and their online presence is prospering. The firm's previous funds, Fund I and Fund II, had a 60% annualized return and a -3.4% net return, respectively.

Bloomberg reported this week that legendary short-seller Jim Chanos is [having a tough year](#), with his main fund down 10.7% through September. Wagers against Tesla and Alibaba have hurt his performance, while his negative position on Continental Resources should have helped materially. But don't shed a tear for Jim, because as the article points out, he gets paid as long as he is down *less* than the market is up.

We Know Why This Man is Smiling



Source: Barron's

Stillwater View: While there are only a few left who are practicing the craft of fundamental short selling, Stillwater is one of them. The firm does so to both hedge downside risk and for straight wagers against the shares of companies and sectors where we think the downside outweighs the upside.

In the third quarter of this year our primary hedged strategy, Stillwater Trinity Equity, was positioned net short, averaging -15% exposure to the overall market. It returned 0.93%. The 'Trinity' in Stillwater Trinity Equity represents the use of longs, shorts and cash. The three components needed to achieve upside capture and downside protection, regardless of market condition.

Goldman Sachs and J.P Morgan are rolling out new ways to [shoot against European banks](#), or at least hedge existing long positions. The underlying security is known as an '[additional Tier 1 note](#)' or AT1, as it is essentially a higher yielding, and riskier, bucket of bank debt put in place to protect taxpayers from another bailout.

Deutsche Bank's AT1s Recent Trough and Recovery

Back in Demand

Deutsche Bank AT1s recover after being at center of 2016 sell-off



Source: Bloomberg

News of Steve Cohen's return to managing [outside money](#) is starting to get a lot of attention on Wall Street, as a [private placement memorandum](#) has been sent out to prospective investors. Mr. Cohen is looking to raise \$10 billion to match his internally managed \$11 billion, creating a top-twenty fund out of the gate. Cohen's best trader, and 15 year SAC/Point72 veteran, Phil Villhauer [announced he was retiring](#) on Tuesday.

Bloomberg *Gadfly* columnist Nir Kaissar is [dubious](#) of the re-start, while others are just plain [envious](#) of the lifestyle his success has provided. Steve paid \$8 million for a shark preserved in formaldehyde from contemporary artist Damien Hirst. The previous trade in 1992 went off at \$93,000.

[“The Physical Impossibility of Death in the Mind of Someone Living”](#)



Source: ARTFIX daily

Diversions

The MLB playoffs move on without the Nationals, Red Sox, Diamondbacks, Twins, Rockies and Indians. Enjoy the offseason.

Tonight, the Yankee's take on the Houston Astros at 8:00 p.m. ET in game one of the American League Championship Series. Over in the National League, the Cubbies meet up with the Dodgers in Chavez Ravine on Saturday.

For anyone traveling west from Chicago for the series, Stillwater recommends a stop at [Phillipe the Original](#) in Downtown Los Angeles. One of the most eclectic mixes of people you will ever find. Insiders tip, don't ask for Au jus on the side. It doesn't exist. Simply order your sandwich 'single' or 'double dipped'.

Phillipe The Original– Serving Happiness on a French Roll Since 1908



The only known Leonardo da Vinci painting still in private hands will be [making the rounds](#) in anticipation of it going to auction next month. Christie's is hosting showings in Hong Kong, San Francisco, and London before it heads to New York for the November 15th sale. "Salvator Mundi" or "[Savior of the World](#)" is valued at \$100 million. The previous trade in 1958 went off at 45 British pounds.

Leonardo da Vinci's *Salvator Mundi*



Source: Christie's

Andy Warhol's [*Sixty Last Suppers*](#) is going up at the same auction with an estimated value of \$50 million.

Andy Warhol's [*Sixty Last Suppers*](#)



Source: Christie's

A virtually untouched [Frank Lloyd Wright](#) home in the Minneapolis suburb of St. Louis Park went on the market for the first time in 60 years. The original asking price had been \$1,495,000 and it was recently reduced to \$1,295,000. It comes fully furnished with furniture created by the architect.

Frank Lloyd Wright and the Home He Designed in Minneapolis



Source: Town & Country

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