

## Stillwater Capital - This Week in the Markets



### The Economic Top- Down

This morning the Commerce Department released Q3 GDP and the U.S. economy just put up the best back to back quarters of growth since 2014. The 3.5% rise was better than economist had predicted and shows that stimulus has produced an above trend rate of growth. Critics claim it's a sugar high while the believers paint a picture of living in the land of milk and honey. That Rubicon is what makes a market.

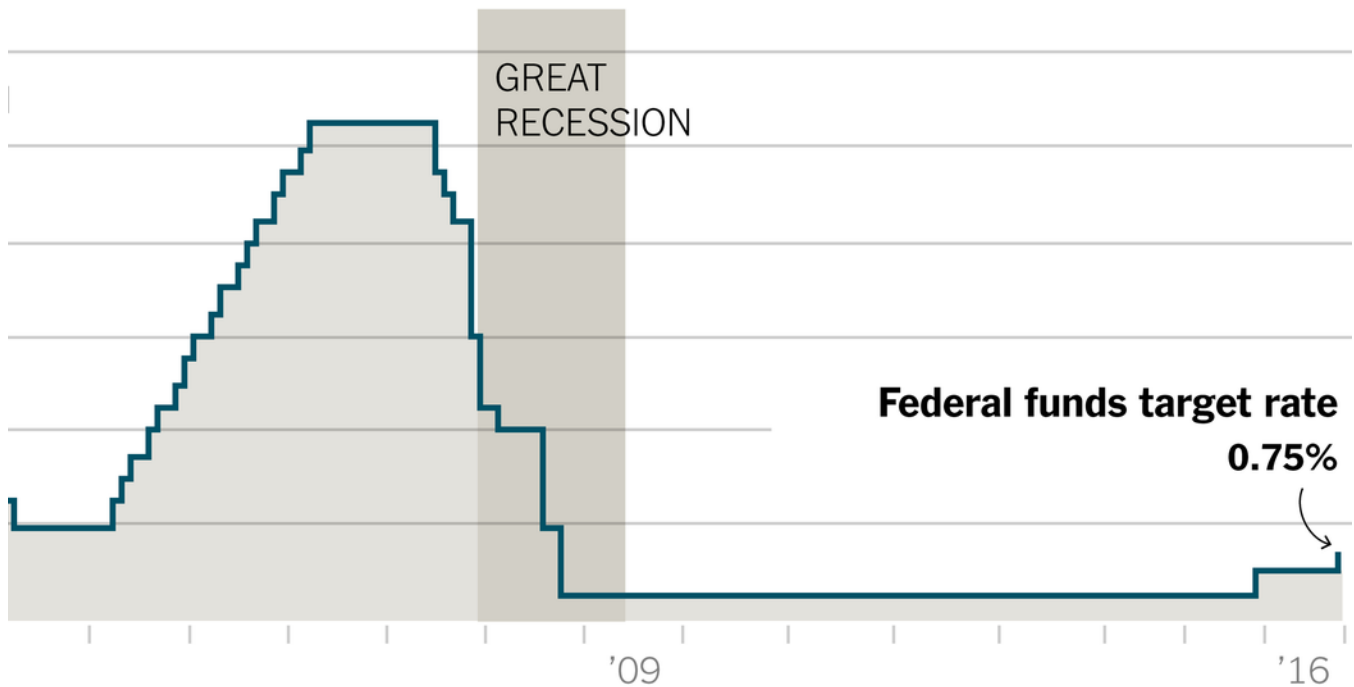
### U.S. GDP



Source: Bloomberg

Another showing of the theater of the absurd took place this week, when several Federal Reserve members confirmed that rates were headed higher. President Trump continues to hint at the fact that Jerome Powell's tenure may be short lived if he doesn't get on board. And the Donald went on further to say that Obama had "zero interest rates" on his side, and he deserves the same thing.

### Zero Interest Rate Policy (ZIRP)



Source: The New York Times

*Our View: Yes, Obama did have zero interest rates on his side, and financial assets around the world are thankful for that.*

All of which had market gadfly, Jim Cramer, opining that the rate setting body was "lazy and irresponsible" and may go too far and tighten too much given the shaky state of global growth.

**Jim Cramer**



Source: The New York Times

If this wasn't enough to make you want to marinate some ice cubes, Paul Volcker's lament that "we're in a hell of a mess in every direction" probably did. Paul has a new book out titled *"Keeping At It, The Quest for Sound Money and Good Government"*.

For those born after 1980, Volcker was the Fed chair during the early part of Ronald Reagan's presidency. *The New York Times'* Andrew Ross Sorkin provided a great interview with the man president Obama once called "a tall drink of water." He is actually 6'7", with the afro 6'10".

**Paul Volcker**

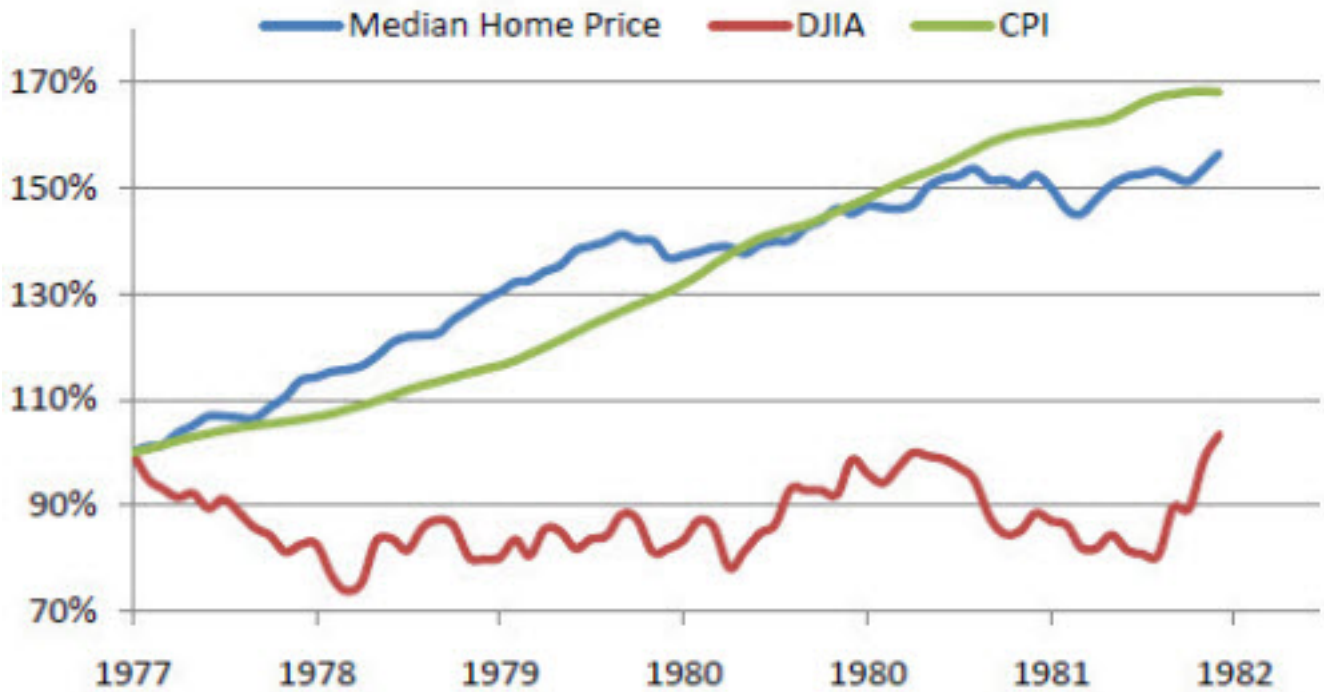


Source: New York Times

His status as an economic icon was cemented when he successfully put down inflation by jacking up the Fed funds rate to 20%. Prior to this, the Dow suffered through a lost half-decade of flat performance while core inflation steadily rose.

**CPI Goes Vertical, DJIA Goes Sideways**

## Late 70's Inflation



Source: Minyonville

Once the inflation fever broke and Reagan's pro-growth tax policies kicked in, it was off to the races for the economy, the market, and all of Wall Street.

## Glory Days on The Floor



Source: South China Morning Post

## The Fundamental Bottom Up

This week, another round of stocks were punished for earnings that were either less than spectacular, or included guidance that was less than stellar. Here we go again with the Good, the Bad, and the Ugly. If this keeps up, we are going to have to add the “Really Ugly.”

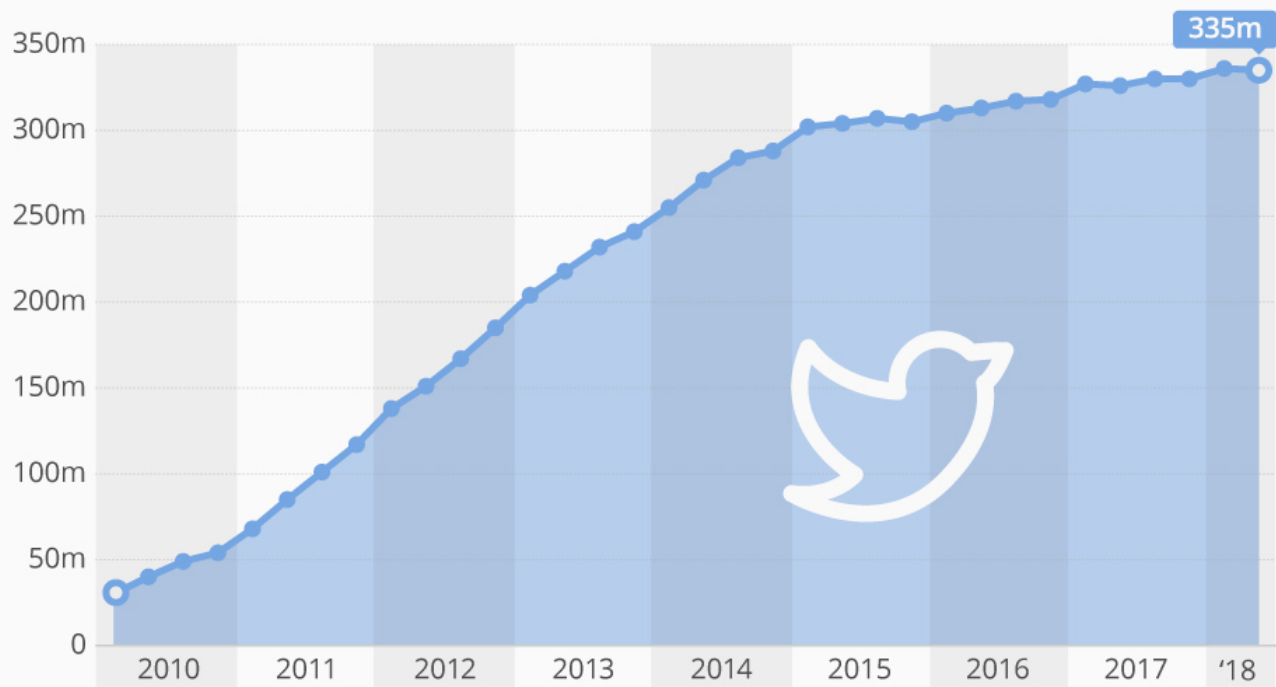
### The Good...

Twitter, yes Twitter, had themselves a very nice quarter. Turns out that their purge of bot and fake accounts has been working, and while user accounts have actually declined, revenues are on the upswing and the Street likes what it sees. The shares rose 15% on Thursday.

### Twitter User Growth

## Twitter Struggles to Attract New Users

Twitter's worldwide monthly active users



@StatistaCharts Source: Twitter

statista

Source: Statista

Tesla put up a number that was on the stronger side by most measures. The key being the growth of the company into an eventual cash flow positive position. Without it Elon Musk will have to continue to tap the debt markets to grease the wheels of production.

CNBC reported the highlights of the eighteen analysts that cover the stock. Eight of which have a rare “sell” rating on the shares. The company’s high yielding 2025 bonds finally looks to have reached a bottom, trading at 88, up from 82 two weeks ago when Mr. Musk appeared to be on the ropes.

### Tesla Model 3



Source: CNBC

### The Bad...

Advanced Micro Devices stock cratered after reporting revenues well below Street expectations on slowing sales of chips that power cryptocurrency farms and blockchain technology. Company CEO Lisa Su made an appearance on CNBC defending the companies long term outlook.

### Russian Crypto Farm



Source: PIXIMUS

*Our View: Pardon our semi-profanity, but this situation highlights how much it can suck to be a short seller. We had this one dead to rights on the fundamentals, but our timing was off to the tune of 100 basis points in performance. Looking forward to making some of that back.*

### **The Ugly...**

The last thing this market needed in terms of destabilization was for Google and Amazon to disappoint, and that's just what they did last night. Both came in shy on the revenue line and the early read from Wall Street is not a good one. The shares traded down late yesterday and are off 7% and 10% respectively this morning.

### **The Horsemen Are Fading**



Source: University of Pennsylvania

*Our View: While the author has been doing this for more than 22-years, I can't recall a time when more market capitalization has been wiped out in such a short period of time. When a company misses on revenues or earnings and fails to give a positive outlook, its "bid wanted".*

Ggggrrrrrrrrr....



Source: CNBC

*Now what appears to be happening, is that the broad indexes are hiding a nasty bear markets that continues to spread from sector to sector, punching like Tyson in his prime. Makes you wonder if you really want to get into the ring right now.*

**Tyson v. Holyfield**



Source: Sporting News

Having failed once before, Yeti Holdings limped across the IPO line yesterday with a reduced quantity and price. To add insult to injury, the stock broke syndicate bid on the first day of trading.

Enough with the technical notes, these guys make great products born out of the simple necessity to have a cooler that won't break. Sounds pretty simple, right? Their flagship store calls Austin home and the author will be conducting a site visit to cooler mecca in the Lone Star state next week.

## **Yeti Products**



Source: Outdoor Elite

*Our View: We all know that Yeti makes great, expensive, and durable products. Just ask Hatteras Funds Founder CEO David Perkins when he almost put one in the lap of a Morgan Stanley advisor. But life is short and a \$35 tumbler is the same price you would pay for a decent family meal at Chick-fil-A. Splurge a little.*

*One of the greatest products the people at Yeti have created is the Yeti Presents studio. These short films take you around the globe, doing things that you would most likely really want to experience first-hand. The series can be found on YouTube by [clicking here](#).*

*Our favorites include the [Kamchatka Steelhead Project](#), [One Eighty Out](#), and [Los Padres](#) which profiles Santa Barbara native Graham Goodfield. .*

**Goodfield in the Los Padres**



Source: Los Padres Outfitters

*Markets*

We have now completely round tripped what was shaping up to be a pretty positive year for the market. Aside from a few country specific situations, most of the broad global ones are now flat or down on the year. The S&P quickly gave up the ghost this month and has also broken the 200-day moving average. This had been a line historically un-penetrable for the past two years.

**S&P 500 / 200 Day Moving Average**



*Our View: This correction, if that's what it winds up being, is looking a lot like a redux of February when a strong rally in the previous month was erased in short order. When it occurred, the finger was pointed at algorithms and flows out of ETFs. It appears as though we are seeing the same thing repeated again.*

At moments like this there is always a lot of talk and speculation as to the cause. As was just mentioned, the two main culprits tend to be ETFs and algorithms. Here is the quick explanation of how the former impacts market pricing. Next week we will dive into the latter.

An ETF is an Exchange Traded Fund. Simply put, it trades all day every day and has an underlying index or basket of stocks that the fund looks to mimic. When money flows in, the basket gets bought. Money flows out, the basket gets sold. When there are imbalances of buyers and sellers prices get distorted in ways that are tough for the market to absorb. What you wind up getting are volatile moves in the underlying equities.

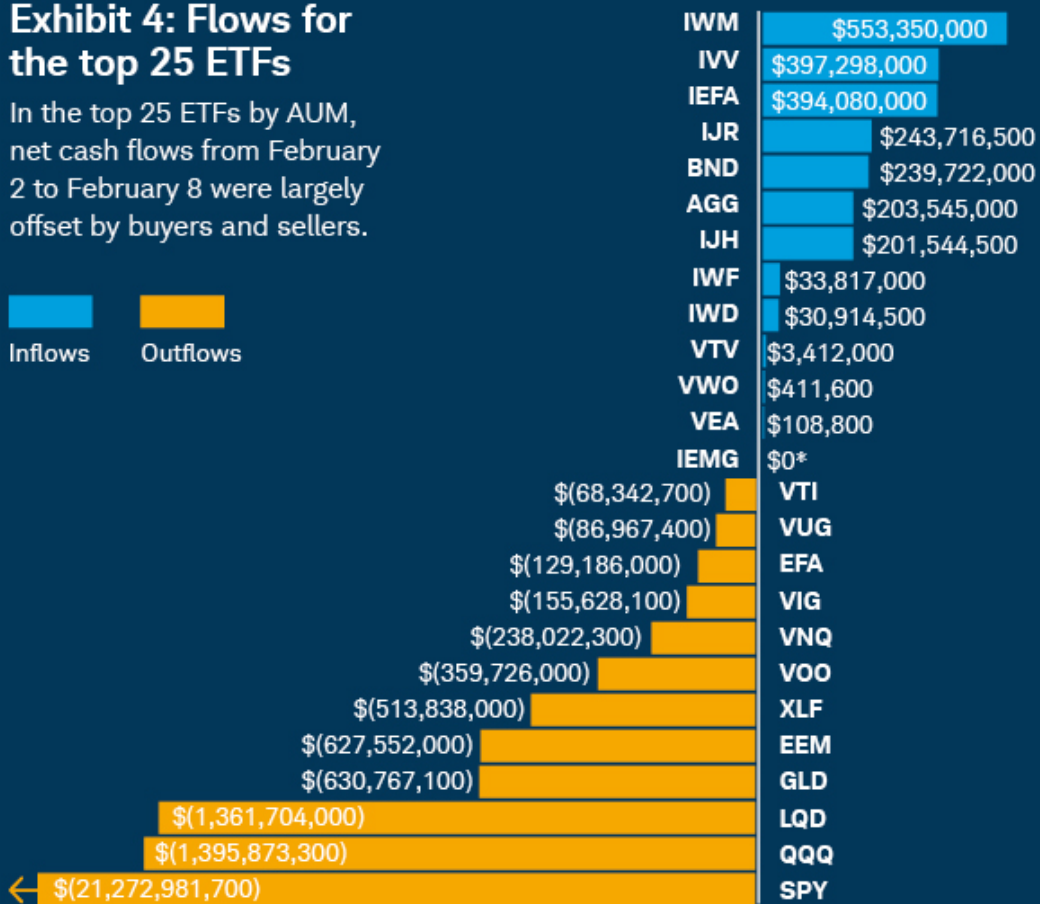
The chart below was produced by Charles Schwab Investment Management and was intended to show how ETF flows were evenly paired off during the market dislocation that occurred in February. Schwab claimed that buyers and sellers largely offset each other.

**Imbalance? What Imbalance?**

## Exhibit 4: Flows for the top 25 ETFs

In the top 25 ETFs by AUM, net cash flows from February 2 to February 8 were largely offset by buyers and sellers.

■ Inflows ■ Outflows



\*No flows. Source: Bloomberg.

Source: Charles Schwab

*Our View: Last time we checked \$30 billion of sellers is greater than \$3 billion of buyers. Why price dislocation would surprise anyone given this imbalance is tough to fathom.*

### *World Series Diversions*

The World Series continues this evening when the Dodgers host the Red Sox in Chavez Ravine at 5:00 pm. The two teams have a lot of history together including the trade that put Pedro Martinez in a BoSox uniform. *The Los Angeles Times* managed to find the guy who started the “Beat LA” chant when the Celtics squared off against the Lakers in 1982. And he still hates Los Angeles.

### **The Original**



Source: Los Angeles Times

The best story of all has to be “The Steal” that started it all for the Red Sox in 2004. With the team down an impossible 3 games to 0 to the Yankees, future Dodger manager Dave Roberts stole second in the ninth inning in what didn’t seem like much more than delaying the inevitable. It wasn’t

**“The Steal”**



Source: YouTube

Turns out Roberts steal would start one of the greatest comebacks in sports history. Not only would the Red Sox win the NLCS, they would go on to defeat the St. Louis in the World Series and turn the page on the Curse of Bambino.

**Sweet Victory**



# One Miracle Season

When the Red Sox won their first World Series since 1918, they defied history, the odds, a curse, their bitterest rivals, and their own identity. From the surreal 2001 auction in which John W. Henry, Tom Werner, and Larry Lucchino bought Boston's much-mythologized losing team to the 11th-hour Game Four comeback against the Yankees, to the final victory in St. Louis, SETH MNOOKIN replays the knife's-edge dramas, with exclusive access to the men who remade a legend.

**FIELD OF DREAMERS**  
The Boston Red Sox took the field after beating the St. Louis Cardinals to win their first World Series since 1918, at Busch Stadium, in St. Louis on October 27, 2004. First baseman Doug Mientkiewicz, No. 13, who caught the last out, is at center.

PHOTOGRAPHS BY JOHN HUBA

Source: Vanity Fair

*Our View: There was no Curse of the Bambino. Boston was just terrible for 100 years.*

## *East Bound and Down*

Next week we are headed to points south, with stops in Austin, Baton Rouge, New Orleans, Charleston, and Atlanta. This trip we be a mix of business and soaking in some southern hospitality with friends both new and old. There is also a plan to catch a couple of decent SEC football games.

## **LSU vs. Alabama**



Source: SEC Network

Since every great trip deserves a name, we are dubbing this one *“East Bound and Down”* after the Jerry Reed classic. Or if you prefer, you can go with the more modern version and call it “The Journey to Find Kenny Powers Soul”.

**Kenny Powers**

EVERY KID HAS A GREAT BALL PLAYER THEY LOOK UP TO.  
KENNY POWERS IS NOT THAT GUY.

**Eastbound  
& DOWN**

A NEW COMEDY SERIES  
FEB 15 10:30 PM



Source: HBO

*Our View: This trip should be a great mix of visiting clients and companies as well as enjoying the boots on the ground experience of being in the south during fall.*

*This Week in the Markets will be coming to you live from the road with a special section on the places we go and the people we see. We look forward to checking in with you next Friday from Austin, Texas.*

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