

## Help Wanted: Cleaners

What will it mean if the ‘complete mess’ that UBS is predicting if the contested election freight train that is barreling down the tracks comes barreling into the station? Interactive Brokers isn’t waiting around idly to find out, and has prepared clients for the reality that they will need to show up with 35% more cash if they want to maintain margined positions. That news last Wednesday added to an already volatile and uncertain market.

## Get Ready for the Power Wash



Fundamentals, which have already taken a decent sized back seat this year, are probably going to be relegated even further to the rear as we get closer to election time. Why? Because of the extremely rare confluence of events that will push the outside of the envelope in determining who gets to call the White House home for the next four years, and the feathers are starting to fly. In July, Joe Biden announced that he gathered 600 lawyers and 10,000

volunteers to fight election ‘chicanery’. Donald Trump has done the same, while making claims that he won’t commit to a peaceful transfer of power, and that the Supreme Court will be the final arbiter of the 2020 election. But first, it will need to round things out by adding a ninth justice to replace the ‘Notorious RBG’, a fast track process that has already begun.

## Nominee Amy Coney Barrett



In terms of the debate last night, we can’t break any new news that you haven’t already heard. What we can do however, is point out once again the power of confirmation bias when one’s own thoughts are put to use analyzing something. In this case, if you thought Donald J. Trump wasn’t a terribly good guy going in, his performance proved it. Likewise, if Joe Biden was a doddering old man in your view, he was probably more so on Wednesday morning. If you have a ‘country first’ view of the world, nothing much changed, except that the hope we get through this moment as clean as possible and grow stronger. While not considered much of a speech at the time, Lincoln’s words at Gettysburg are as important now as ever, after all, it is indeed our government.

“Government for the people...”

# THE GETTYSBURG ADDRESS

November 19, 1863

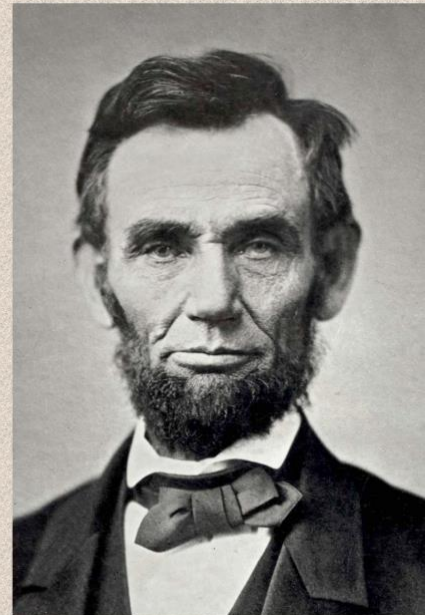
At the Dedication of the Soldiers' National Cemetery in Gettysburg, Pennsylvania:

Four score and seven years ago our fathers brought forth on this continent, a new nation, conceived in Liberty, and dedicated to the proposition that all men are created equal.

Now we are engaged in a great civil war, testing whether that nation, or any nation so conceived and so dedicated, can long endure. We are met on a great battle-field of that war. We have come to dedicate a portion of that field, as a final resting place for those who here gave their lives that that nation might live. It is altogether fitting and proper that we should do this.

But, in a larger sense, we can not dedicate – we can not consecrate – we can not hallow – this ground. The brave men, living and dead, who struggled here, have consecrated it, far above our poor power to add or detract. The world will little note, nor long remember what we say here, but it can never forget what they did here. It is for us the living, rather, to be dedicated here to the unfinished work which they who fought here have thus far so nobly advanced. It is rather for us to be here dedicated to the great task remaining before us – that from these honored dead we take increased devotion to that cause for which they gave the last full measure of devotion – that we here highly resolve that these dead shall not have died in vain – that this nation, under God, shall have a new birth of freedom – and that government of the people, by the people, for the people, shall not perish from the earth.

*Abraham Lincoln*



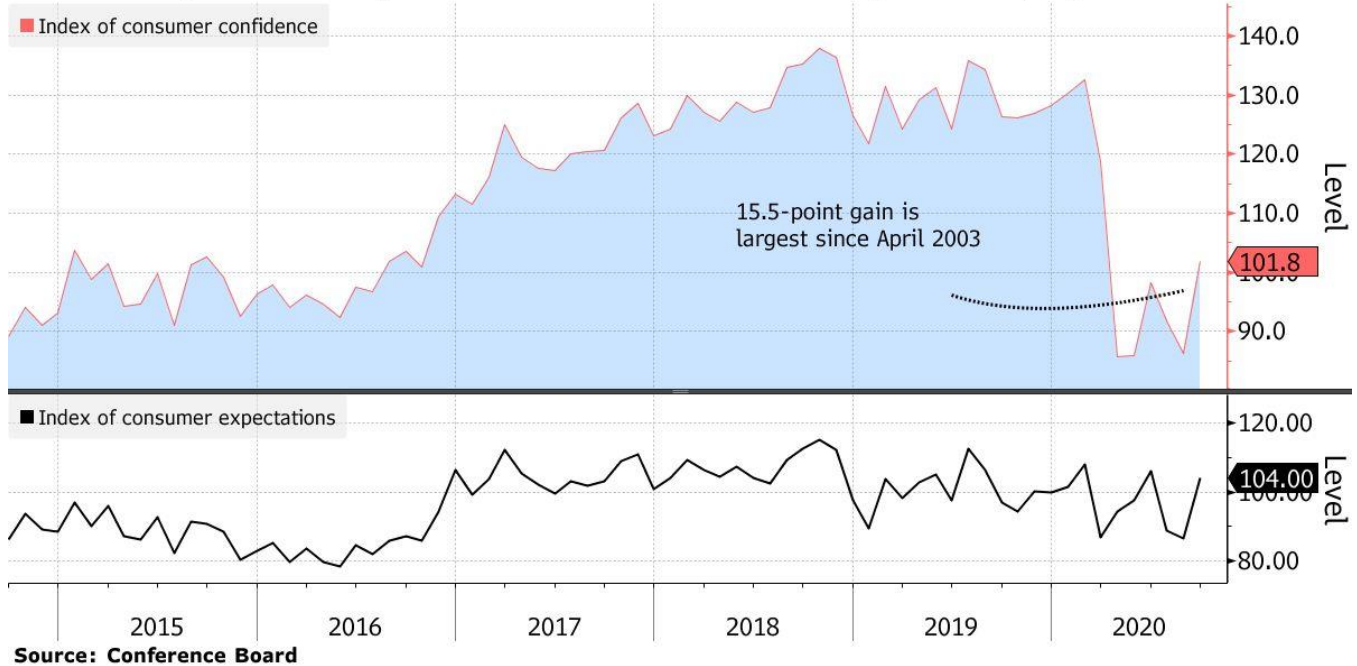
## The Economy

Biggest news of the week from the economics side of the world is the rebound in consumer confidence after the implosion the measure experienced in the first quarter. While nowhere near back to previous highs, for an expensive market that is begging for a real recovery, we say score one for the bulls.

## Consumer in Recovery

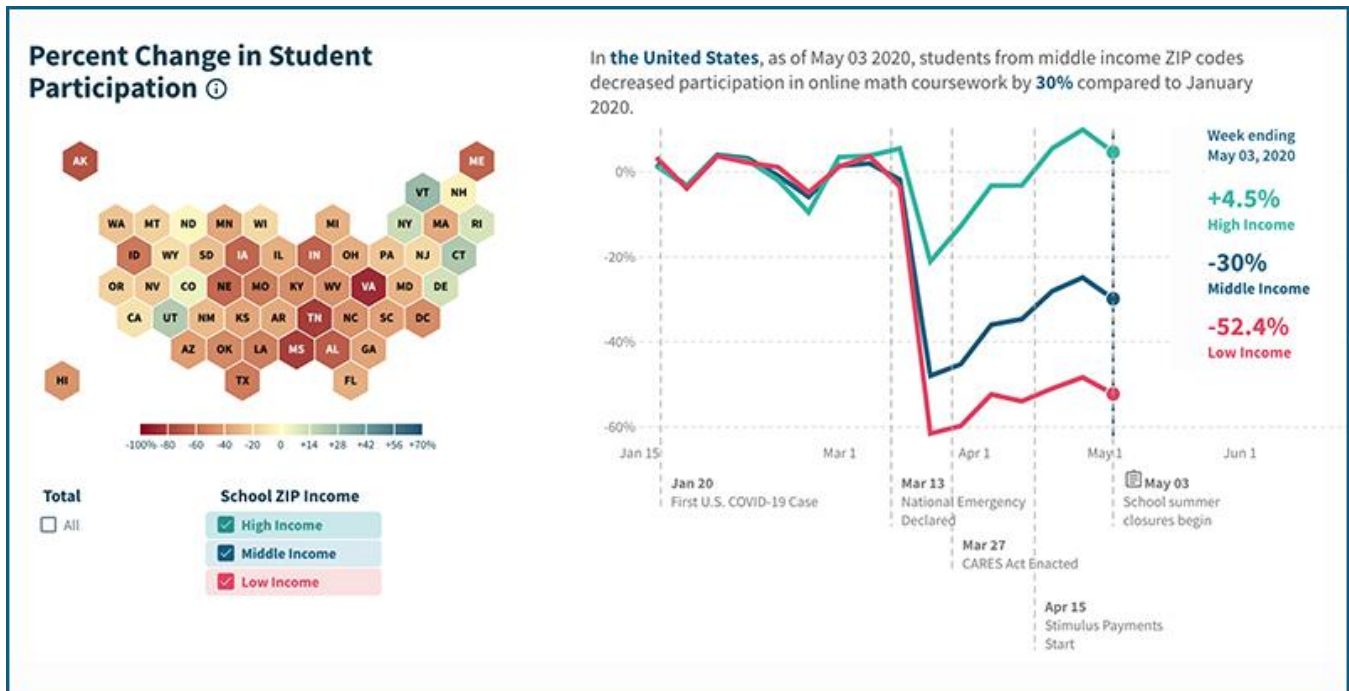
# Confidence Boost

## Americans grew more upbeat about outlook for economy and employment



Two weeks ago, we dove deeper into the world of artificial intelligence and data analysis that's used to pick up signals on the direction of the economy and markets. Our curiosity was further stoked when Bloomberg Businessweek ran a great (and lengthy) article on the work of [Harvard's Raj Chetty](#), and the data tool he created to provide a 'God's Eye' view of things, in as real time as possible. While it's longer than the average read, we highly recommend anyone with intellectual curiosity running through them to take the time and dive in. For those wanting to go even further down the rabbit hole, there is the AI powered [Opportunity Insights](#) that provides usable versions of data analytics provided by Chetty's team of researchers and staff.

## Disparate Educations



Speaking of disparate worlds, even with Wall Street notching new highs and the NASDAQ simply on fire, the global heart of markets and capitalism, New York City, is still taking some serious economic lumps. In and around the five boroughs, bankruptcies are up 40% and many owners aren't even trying to work things out, instead simply handing back the keys and walking away. This further reinforces the economic bifurcation thesis that companies who are big and well capitalized, with access to very loose credit markets are going to survive and thrive again, while the clock is ticking for those operating down the food chain.

Barely a Sniffle

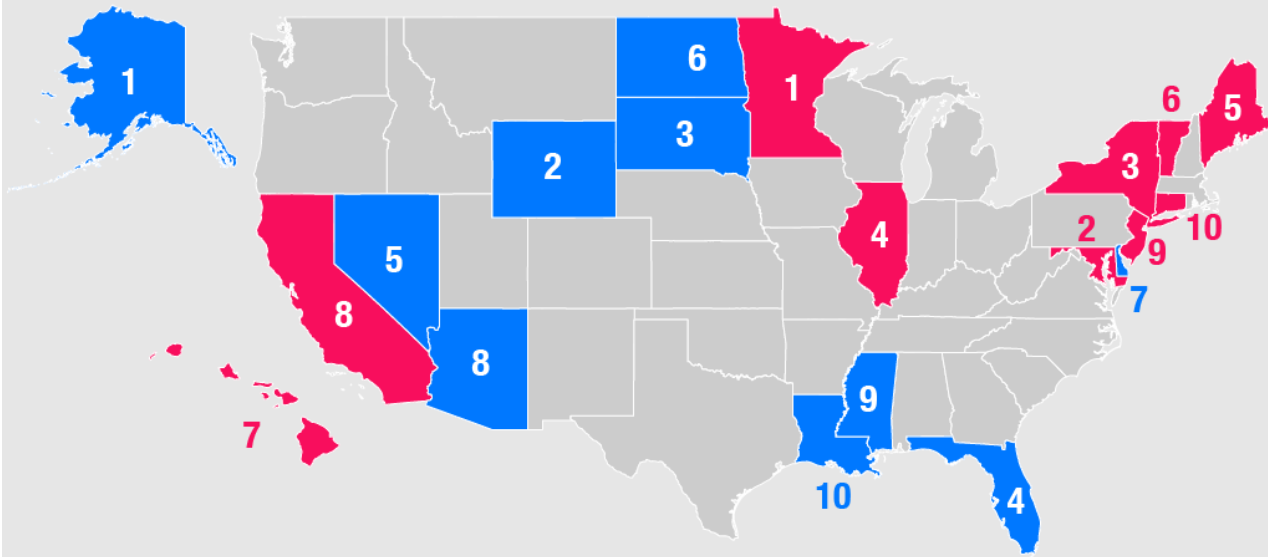


## The California Exodus

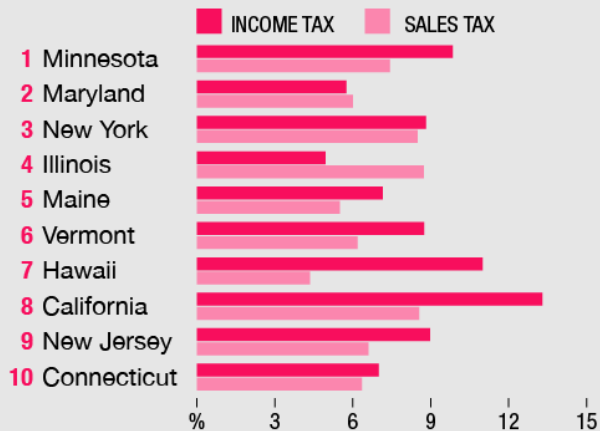
While not all are ready to leave the Golden State for greener pastures elsewhere, some of the state's wealthiest residents are. This week, DoubleLine's billionaire founder Jeffrey Gundlach, announced via Tweet that realtors from more tax advantageous states should give him a call. This comes after legislators in Sacramento proposed raising the top state income tax rate from 13.3% to 16.8%. New Jersey already took the lead and raised the top marginal rate 20% from 8.97% to 10.75%. If Gundlach is looking for a new place to call home, his choices basically boil down to Jackson Hole or Palm Beach, unless of course he has a thing for the Dakotas or Alaska.

Wide Delta

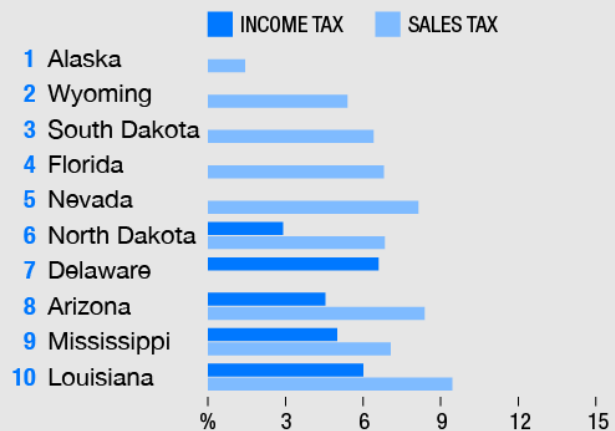
# Least and most tax-friendly states



## Least tax-friendly



## Most tax-friendly



SOURCE: Kiplinger \*Tax rate varies on income bracket. Highest rate listed.

YAHOO!  
FINANCE

Because California is the home to innovation, the country's first ever 'wealth tax' is making its debut right now. While not likely to pass this year but on the agenda for 2021, the uber wealthy 1% that currently pay 50% of state taxes will be hit with an additional .40% levy on the value of their grossed-up assets, wherever those assets are held. And oh yeah, thinking about leaving the state to avoid paying up? Good luck! The additional levy is going to be on the liability side of your balance sheet for a decade.

## A Decades Long 'Gift'

**Figure A: Exit Tax Rates Over Time Under A.B. 2088**

<b>Year</b>	<b>Proposed California Wealth Tax Rate on Taxpayers Who Leave the State in Year 1</b>
1	0.40%
2	0.36%
3	0.32%
4	0.28%
5	0.24%
6	0.20%
7	0.16%
8	0.12%
9	0.08%
10	0.04%
<b>Total, Years 1 through 10</b>	<b>1.80%</b>

### SPAC-a-Palooza

A huge theme this year since the markets went on a post Covid-19 economy bacchanal like no other, is the explosion of blank check companies going public. Better known as Specialty Purpose Acquisition Companies, these billion dollar buckets of money are handed over to investor groups led by the likes of Peter Theil and Bill Ackman, the latter of which floated a \$4 billion offering earlier this year. Same guy who claimed 'hell is coming' back in February.

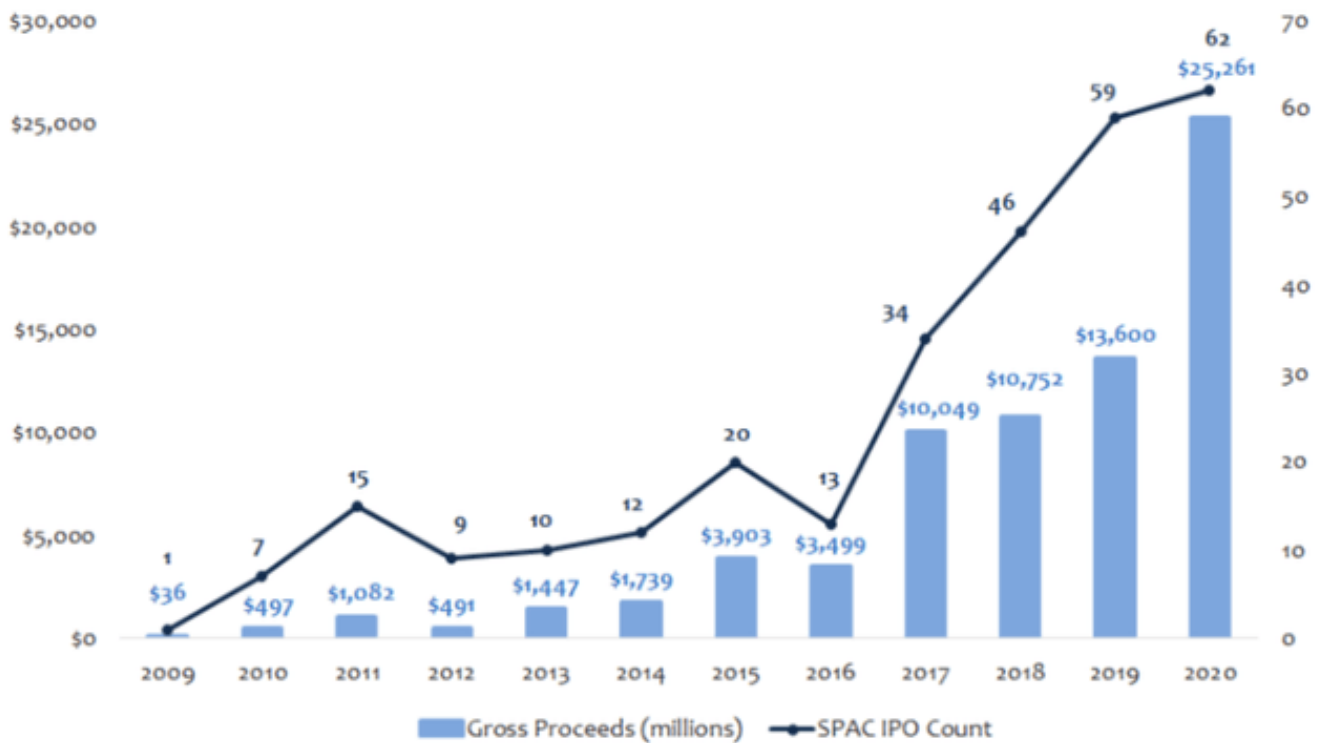
## Mature Unicorns...Check!



But buyer beware, these vehicles have a strong tendency to work out very well for the founder's class of investor, and not so much for those who buy at the IPO or in the open public market. Want proof? Just look at what Ackman himself had to say about the absurdity of it all when he discussed the subject with Institutional Investor magazine. The tidal wave is so big that one out of every five dollars raised in 2020 has been via a SPAC offering. This chart below, which takes you through early August, is already outdated as the \$25 billion shown is now more like \$40 billion.

'Make hay when the sun shines'

## SPAC Transactions - Summary by Year as of August 5, 2020



Source: CapitalIQ. Data as of 8/5/2020.

Interested in seeing who the 'Blank Check Barons' are? Bloomberg gives you the list of veterans, upstarts, media titans, old line bankers, and the only woman in town...so far. No revenue, no problem, as author Chris Bryant points out. Especially when it comes to electric vehicles and the sometimes-dubious technology behind how the cars are powered. The poster child for this was the 2017 promotional video designed to show a hydrogen powered Nikola semi crossing the Nevada desert. Turns out, it was just rolling downhill, and now the S.E.C seems to be interested.

### Rolling Along, Literally



The point of all this is two-fold. First, the parabolic ramp in asset raising in the SPAC structure is a red flag that speculation is getting out of hand, as these vehicles have a checkered past in terms of actual returns for investors. Second point, who really cares this time around? Money is dirt cheap and the Fed has stepped up and handed the sailors on shore leave wads of cash, the promise for more dough if they need it, and cases of rum to keep the party going well into the morning hours. Whether orders ever come to get back on the S.S. Reality remains to be seen.

Mr. Benjamin, Circa 2020



## Food & Entertainment

It's a tough week for those working in the theme parks division of Walt Disney Co., as nearly 30,000 employees were officially laid off on Tuesday. While more than 60% of these are part-time workers, the cuts do go deep and include mid and top-level management. The cuts came from the crushing effects of Covid-19 that have kept Disneyland in California and Disneyworld in Orlando, Florida, closed since April. The former employs 30,000 workers, the latter an astonishing 77,000.

Closed for Now



In a sign of the times, Big Hit Entertainment, the record label behind K-Pop sensation BTS went public this week on the Korean stock exchange, and was quickly awarded a \$4 billion valuation by the market. Founder Bang Si-Hyuk is now a billionaire, and members of the band are all millionaires. This on the back of \$84 million in profit last year. If ever there was a place to speculate, it's on the rising success or failure of Asian boy bands.

## Bulletproof Boy Scouts

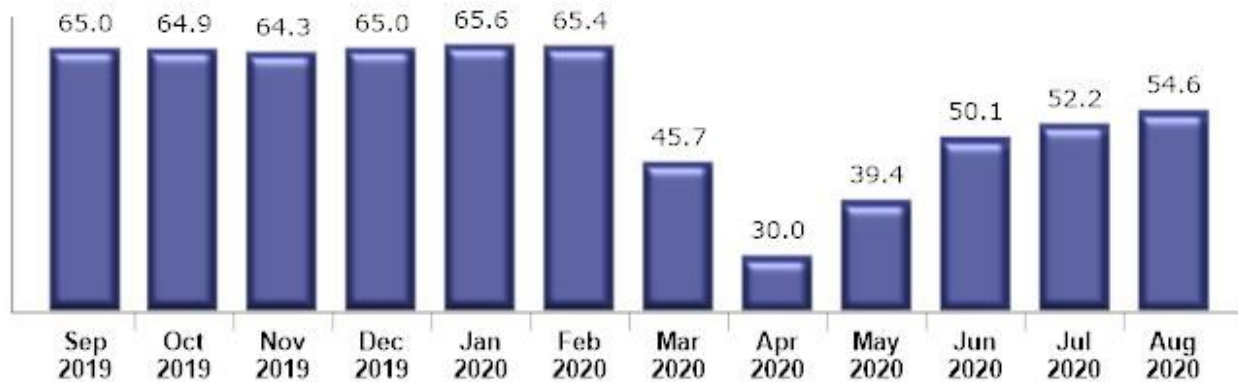


Add the Sizzler Steak House to the list of culinary casualties from Covid 2020, as the company that owns and operates the 14 non-franchised locations filed for Chapter 11 bankruptcy protection last week. Founded in Culver City, California in 1959 as the Sizzler Family Steakhouse, it joins a long and growing list of restaurants that have failed due to the pandemic. They include California Pizza Kitchen, Souplantation, and Chuck E. Cheese, along with some very notable single location restaurants from the likes of Wolfgang Puck, José Andrés, David Chang, Daniel Boulud, Charlie Palmer, and the late Paul Prudhomme

Stalled Rebound

## Total Eating and Drinking Place Sales

(in billions of current dollars)



Source: U.S. Census Bureau, figures are seasonally-adjusted

Coca-Cola is partnering up with Molson Coors for the 2021 launch of Topo Chico hard seltzers. It will be the first foray into alcoholic beverages since the company got out of the wine business in 1983. You would have had to have your proverbial head in the sand to not notice the ascension of White Claws, owned by Mark Anthony Brands, and other hard seltzers over the past two years, as they have added serious fermented juice to a stagnant spirits industry. All we know, is that we hope Coke gets it right as we are part of the cult following that loves themselves an original Topo Chico and lime.

### Bottoms Up

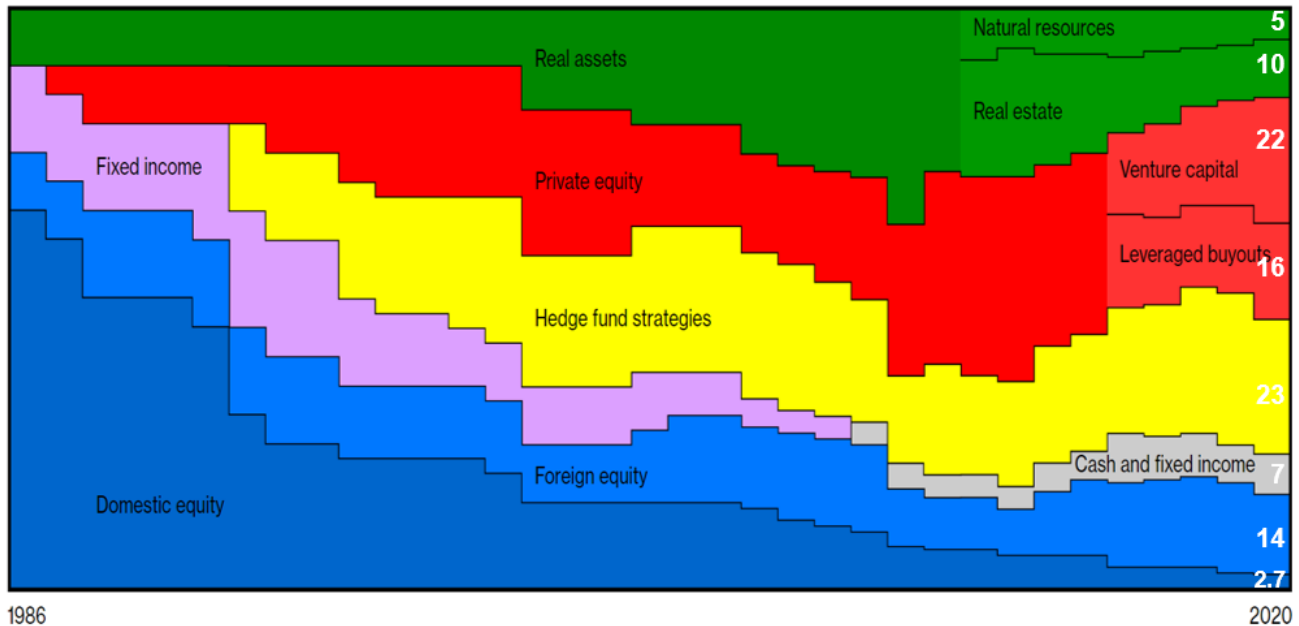


## Alternative Investments

On a risk adjusted basis, major university endowment returns are looking better by the year. In large part because of the diversification away from pure equities into all different varieties of alternative investments, a theme we flog in these pages often. David Swenson, who has led Yale's endowment since the mid-1980s, has taken domestic stock exposure down to a scant 3%, while venture capital and leveraged buyouts represent almost 40% of the portfolio. Needless to say, he is probably getting paid right now for the 22% allocation to the hottest part of the market at present, unicorn IPOs. And much to our pleasant surprise, hedge funds still make up 22% of Swenson's overall asset allocation.

Alts Uber Alles

## David Swensen's asset allocation, 1986–2020



Sources: Yale, Bloomberg

Not to be outdone, Harvard announced that their endowment returned 7.3% over the past twelve months. The Crimson, along with many other Ivy League schools, follow a similar one to Swensen at Yale's. Most reported positive returns for the year. Yale's endowment returned 6.8 percent to total \$31.2 billion, and Dartmouth's returned 7.6 percent to total \$6 billion. MIT's returned 8.3 percent for the fiscal year, totaling \$18.4 billion. When your bogey is 7%, these are all within the acceptable range.

### Pilgrims vs. Bulldogs



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