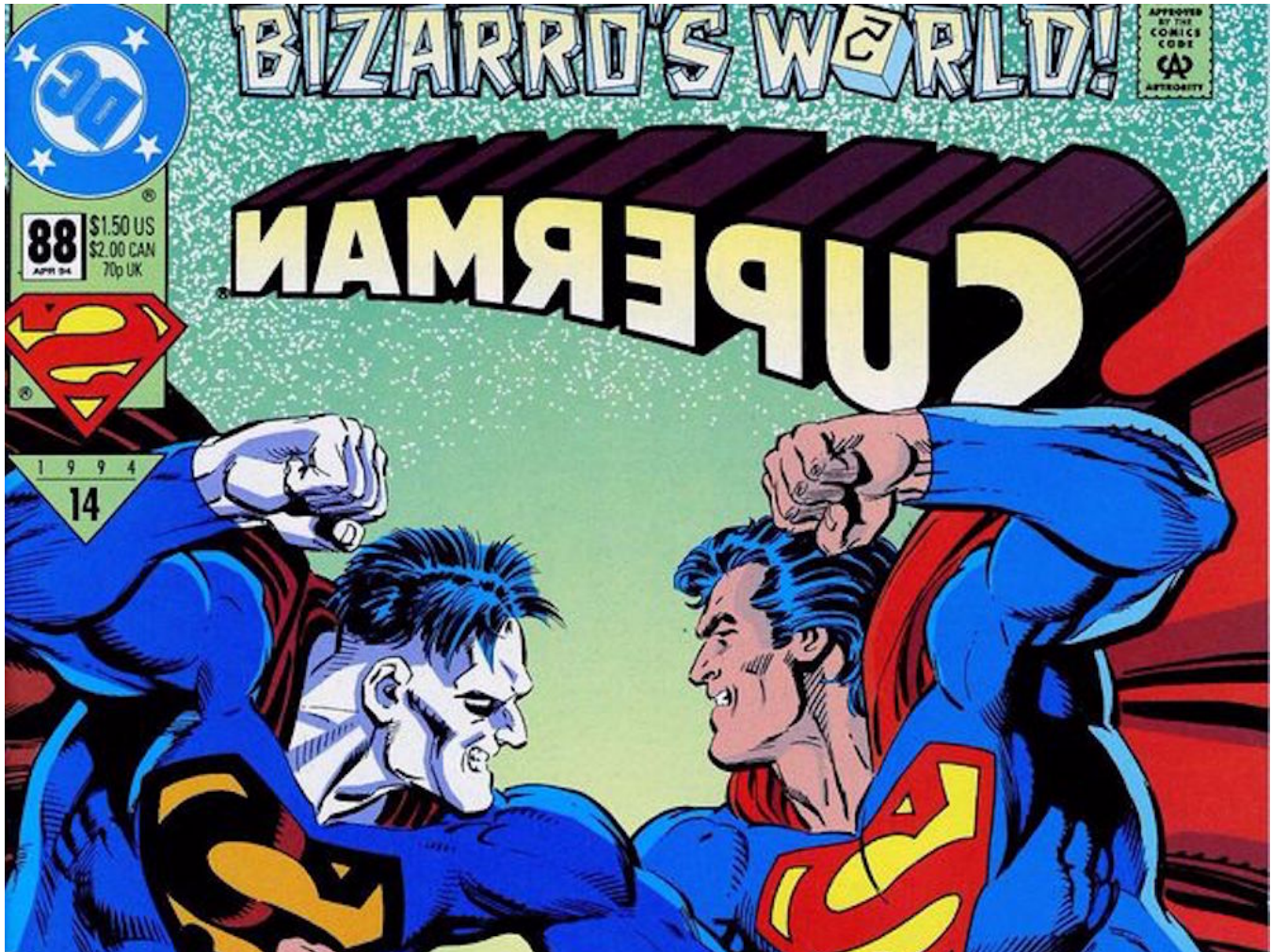


Welcome to Bizarro's World



This week we entered into what can best be described as Bizarro's World, named for Bizarro, Superman's alter ego. Both had superhuman strengths, one played to the good side, the other to the bad.

In this market, where a whole bunch of indicators and trends are pointing to Bizarro's fighting strengths, it's Superman, backed by 'win at all costs' central bankers, that is ahead on all cards.

The Economy

The European Central Bank met this week, and in a fractured decision, decided to lower the discount rate and resume the government bond buying program, more commonly referred to as quantitative easing. We call it fractured, because there technically was no vote, and if

there was, France would have pulled the short straw and would not been able to cast their 'no' vote. Bottom line, from where the pro-Draghi camp stands, where there is no inflation to battle by draining liquidity, it's party time Italian style. And that aforementioned liquidity is now flowing like water in the canals of Venice. Draghi, who came from the central Bank of Italy steps down next month, to be replaced by France's Christine Laggard.

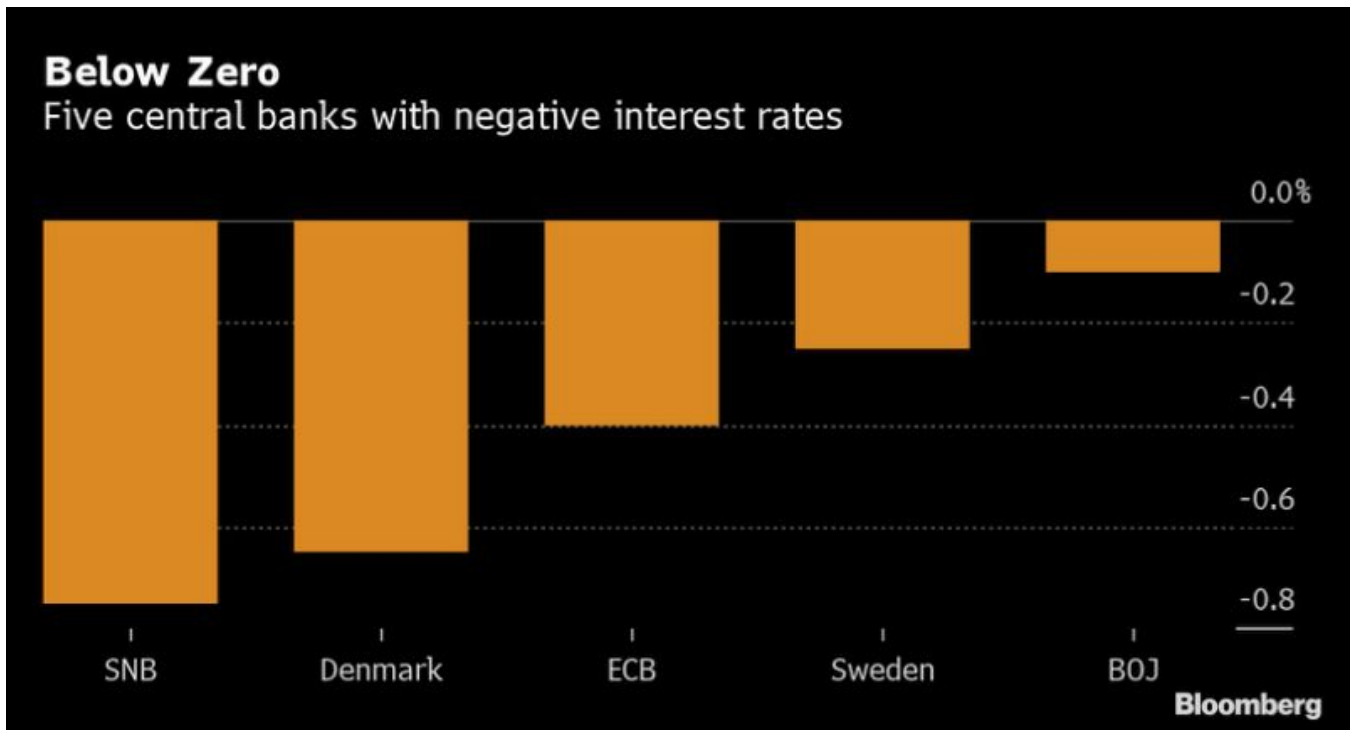
Liquidity Runneth Over



Source: Boston.com

President Trump once again lashed out at the Federal Reserve, this time saying that the United States should join the rest of the world and take rates negative. The punchline to his Wednesday Tweet being, 'They (the ECB) get paid to borrow money, while we are paying interest!'. Forbes carried an article the next day explaining why this would be a 'boneheaded move'.

Can't Beat em' Join em'?

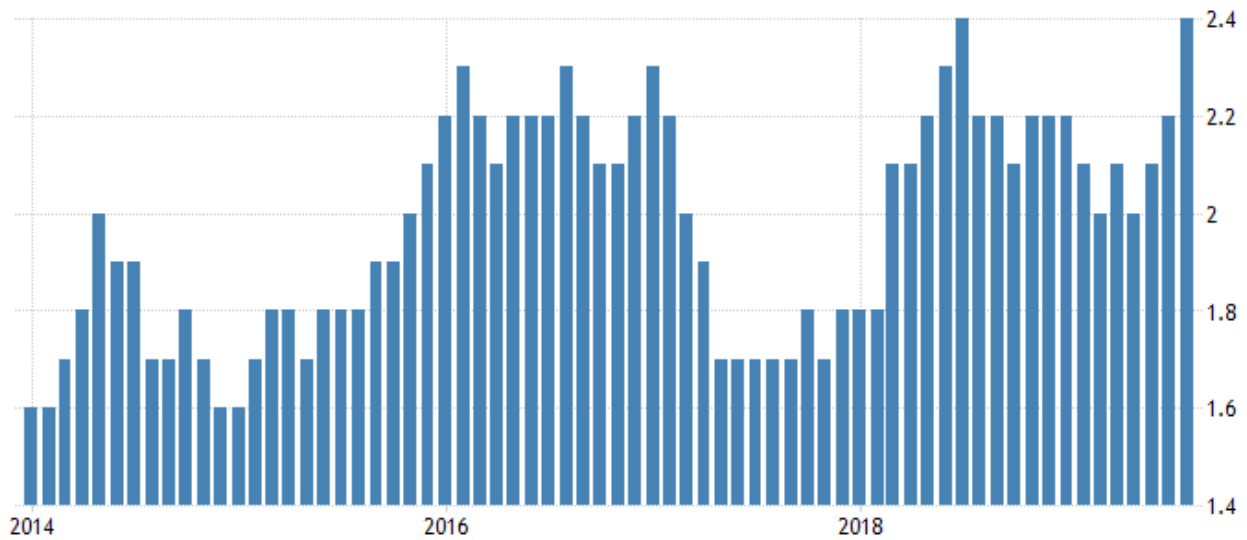


Larry Summers, the Treasury Secretary who served under Bill Clinton and Barak Obama, was interviewed in the *Wall Street Journal* this week and talked about the risk the United States exposes itself to as it enters a deflationary black hole like the rest of the world. He describes this condition as ‘Japanification’ where inflation stays below target, and central banks run out of ammunition to re-fire it. From Mr. Summers...

“The experience in Japan, Europe, or even the U.S., is that once you get into a near-zero interest-rate regime, it’s kind of a black hole. The economy tends to be pulled in, and once there, it’s difficult to escape. Japan is unable to, and it doesn’t look like Europe will. The U.S. did escape, but it looks like we’re being pulled back in. We’re only one recession away from “Japanification.” In the black hole, weak economic growth and low inflation lead to low interest rates, and falling confidence makes it hard to escape low rates.”

And if you weren’t confused enough yet, this week we got a look at our core inflation and the number reported was the highest it has been in five years. While simply a number on a page for now, if we get a spike in inflation the apple cart won’t just be overturned, the mess will look something more like a pileup at the Daytona 500.

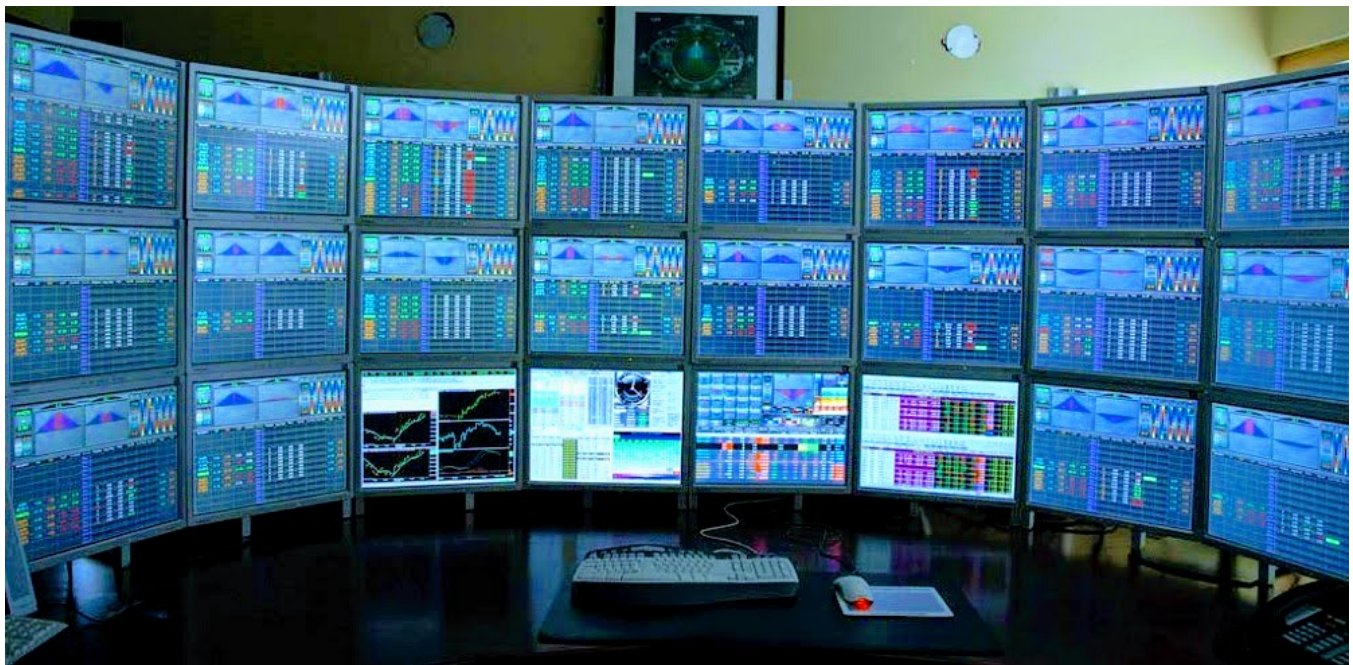
Core CPI



SOURCE: TRADINGECONOMICS.COM | U.S. BUREAU OF LABOR STATISTICS

Stillwater's *This Week in the Market's* hit's your electronic doorstep early on Saturday morning. We do this for a few reasons, namely because the market week is finally over and those of us who follow it can finally think a little more clearly without the 'blinking lights of pain and pleasure' piercing our frontal lobe. Plus, it goes good with a nice cup of coffee.

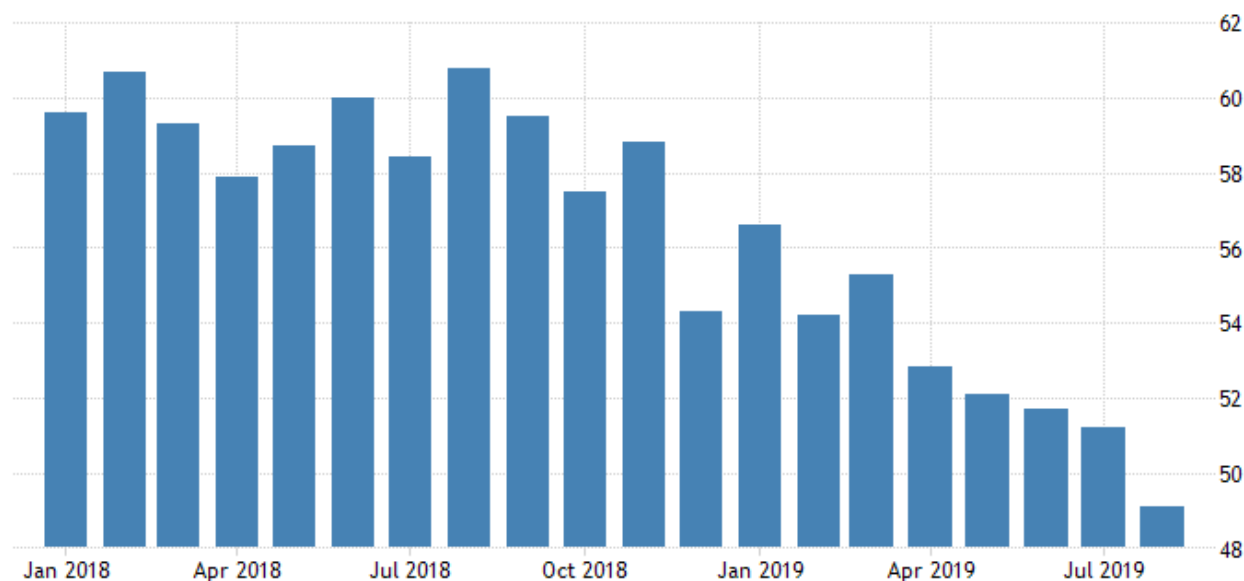
Overly Stimulated



Source: Pinterest

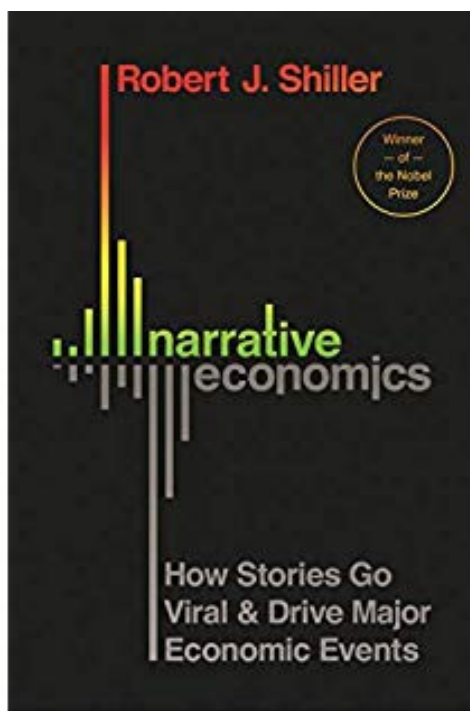
All that said, if you are looking to get a real boots on the ground look at how current trade policies are impacting the economy, marinate some ice cubes and read what *Bloomberg* put together in a great in-depth story about what things really look like in states where the industrial economy plays a big role. The story's dramatic headline reads, "Recession Already Grips Corners of the Country..."

Manufacturing PMI



Source: Trading Economics

For those of you who *really* like to listen to Nobel Prize winning economists, we have one for you who goes by the name Robert Schiller, who won his by studying the effects of behavioral economics on the markets. He is out on tour promoting his most recent book, 'Narrative Economics', and sat down for an interview with *Bloomberg* to discuss the perceived difference between where the economy is today, and where the market is forecasting it will go from here. He also opines on the 2020 election. If you know Bob, you might want to tell him his book cover looks like an instruction manual for Atari, circa 1982.



Markets & Hedge Funds

For those of us who call the markets our professional home, this was hands down one of the most challenging, yet interesting, weeks in several years. Why? Because we had a huge change in the dynamics underlying the equity and fixed income markets. This shift has upended several trends that have been in place for the last year or more, and when they finally found the edge of the curve, and began to revert, all hell broke loose for portfolios positioned the wrong way. And the result was, 'clean up on aisle seven' for a lot of money managers and hedge funds.

This Could Take a While

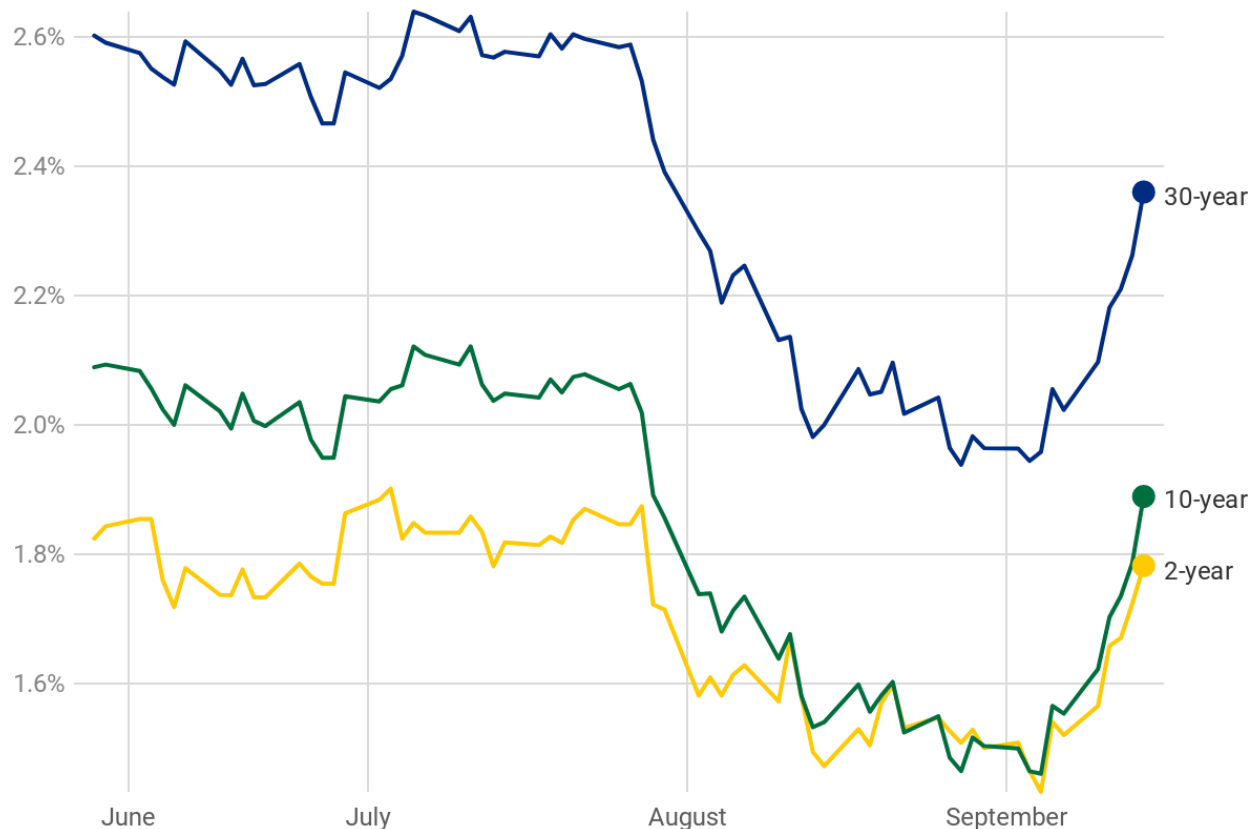


Source: Innerwill

What kicked both the rapid and massive unwind of positions that had been in place, was the bottoming in bonds and the quick rise in interest rates. There are several theories on this, one being that economic news here at home had gotten better, and the other being that things had simply gone too far in terms of the rally in bonds and drop in interest rates. Regardless of the reason, it was a violent move.

Rapid Reversal

US Treasury yields



Source: FactSet • Created with Datawrapper

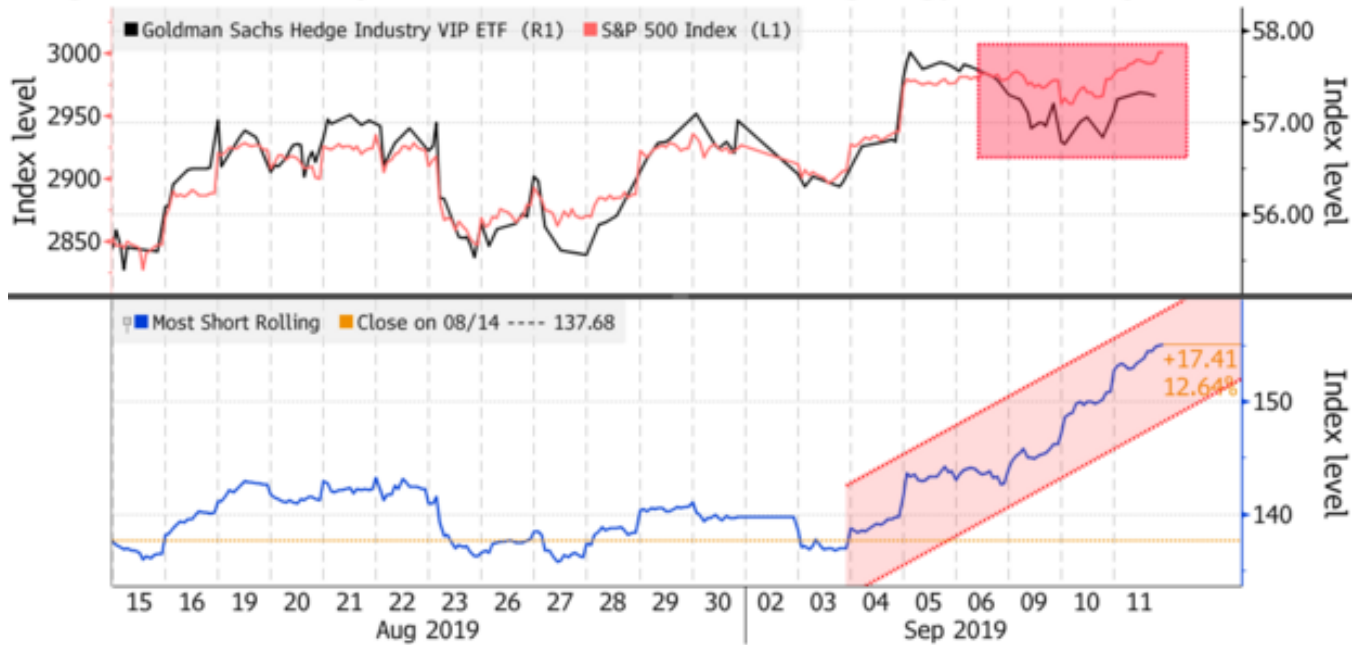
While a 30 bp point move shouldn't set off dominos the way this one move did, the fact that it came from a low yield of 1.47% on the 10-year said everything. That event, tip-to-tail, was an actual 22% rise in yields. Imagine if we went back one year when the yield was 3.0%. This same percentage move would have sent it to 3.8%, and once again, all hell would have broken loose.

What did indeed break loose this week was a reversal in trend that sent stable dividend paying stocks down sharply while quant funds and algorithms kicked in and bought value baskets of stocks, including a larger number of more heavily shorted stocks, with all kinds of hair on them.

Funds Scramble to Cover

Crowding Risk

Hedge fund conviction put to test as their favorite longs lag, shorts rally



Source: Goldman, Bloomberg

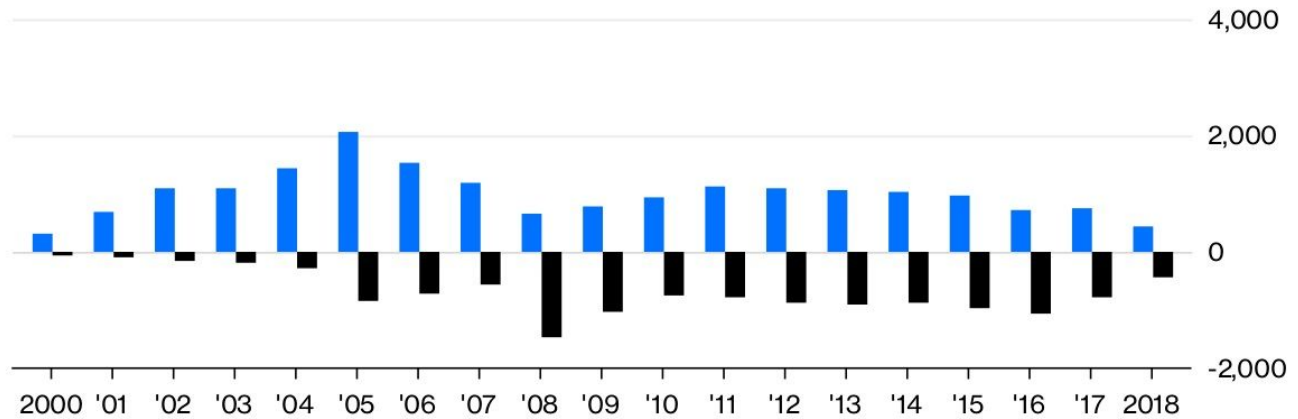
Stable yielding stocks had been on a huge run as they were treated as ‘bond equivalents’ while they went along for the giant rally in fixed income. Value was truly in the un-loved bargain bin that historically does really well when the ‘risk on’ trade kicks in. The move was so big, and happened so fast, that Morgan Stanley believes some hedge funds that were long the aforementioned trade, and probably levered, may not survive through the end of the month.

Closings and Openings Narrow

The New Normal?

Fewer hedge funds are starting; but fewer are also being closed

■ Launched ■ Liquidated



Note: 2018 figures are through the third quarter

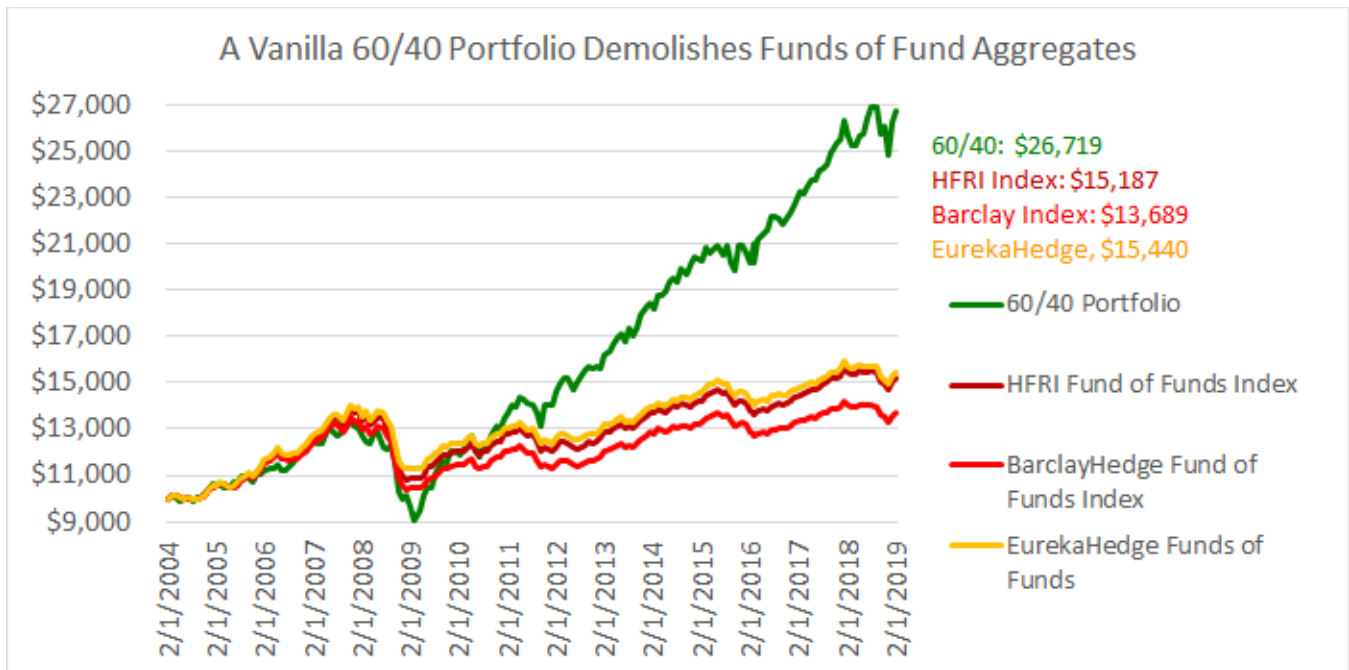
Source: Hedge Fund Research

BloombergOpinion

And why not? Our industry hasn't given the world a whole lot to get excited about over the past decade. Having said that, the public measurement of how hedge funds perform isn't telling the whole story as it doesn't account for the risks taken. We had a great conversation with an industry colleague this week who lamented the same thing.

Bottom line, if the S&P 500 returns 15% and your fund makes you 10%, but does so with half the risk, that's a pretty good trade. The problem has been that the equity markets have been kicking out returns in excess of the 100-year norm of 9%. And that's a tough bogey to shoot against, regardless of how you are positioned.

'But Compared Against Risk Taken...'



Source: Seeking Alpha

Some of you may be asking how Stillwater’s strategies fared in September, we can happily report, with some degree of relief, that the biggest hit we saw was a 3% decline in our main strategy, Stillwater Hedged Equity Income. Which by no means sinks the strategy, as this reversion admittedly a long time in the making, and yet nearly impossible to time. We don’t see it becoming the new normal.

Our other strategy, Trinity, has been a bit more of conundrum since we launched it last year. It has more discretion to take a position long or short the market. That said, it’s been six months behind Jerome Powell and his itchy trigger finger and has the bumps and bruises to show for it. This strategy is still positioned to benefit from lower stock prices. Based on our experience and outlook, we plan to be patient and ride this out.

Get Ready for the Drop



Source: Kings Island

As we wrote last week, most everything in life and business can be explained, or at least better understood using a concept referred to as Gaussian distribution, otherwise known as the 'bell curve'. This week we get to highlight a master of the universe in our business, who through his work as a quant hedge fund manager has established himself on the far right side of the curve.

The man who we are referring to is Peter Muller, the founder of PDT. The firm's name stands for Process Driven Trading, and is the one asset that James Gorman, the head of Morgan Stanley, says he wish he could have back after Dodd-Frank forced him to let it go. Not only is Muller a founding father of modern quant-based trading, he is also an accomplished musician who is currently out on the road playing and promoting his fourth studio album, titled *Dissolve*. Bloomberg Businessweek [profiled the man](#) and his music.

Pete Muller Onstage



Source: Bloomberg

E-Real Estate

For all you haters out there of everything special and wonderful about Silicon Valley Unicorns, you may have just received the payoff you are looking for, as We Work has become the battered poster child for all things that look and feel excessive and wrong these days.

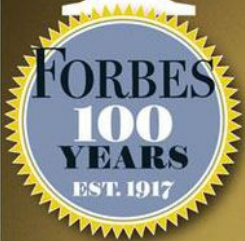
With the company's valuation falling from \$45 billion to what appears to be around \$15, massive questions are being asked if this is the sign that the IPO cycle might now be on shaky ground. *CNBC's* Jim Cramer, went so far as to say, 'Stop the deal' as it could take down the whole market. Founder and CEO, Adam Neuman, has billions riding on the deal himself.

We Wreck?

THE NEXT BILLION-DOLLAR STARTUPS

Forbes

OCTOBER 24, 2017



AMERICA'S
TOP 100
WEALTH
ADVISORS

2018
LUXURY
CAR GUIDE

NFL'S MOST
VALUABLE
TEAMS

WEWORK
COFOUNDER
**ADAM
NEUMANN**

"WE'RE DOING
AMAZING THINGS
THAT NO ONE ELSE
IS DOING."

THE \$20 BILLION OFFICE PARTY

**WEWORK MADE GO-WORKING COOL.
THE NEW BIG BET: CHANGING WHERE AND
HOW THE WORLD DOES BUSINESS.**

The question marks surrounding the company and the offering are everywhere, even though as of Monday the IPO was 'full speed ahead'. So, let's roll out the dirty laundry aired this week. And trust us, there is plenty of it.

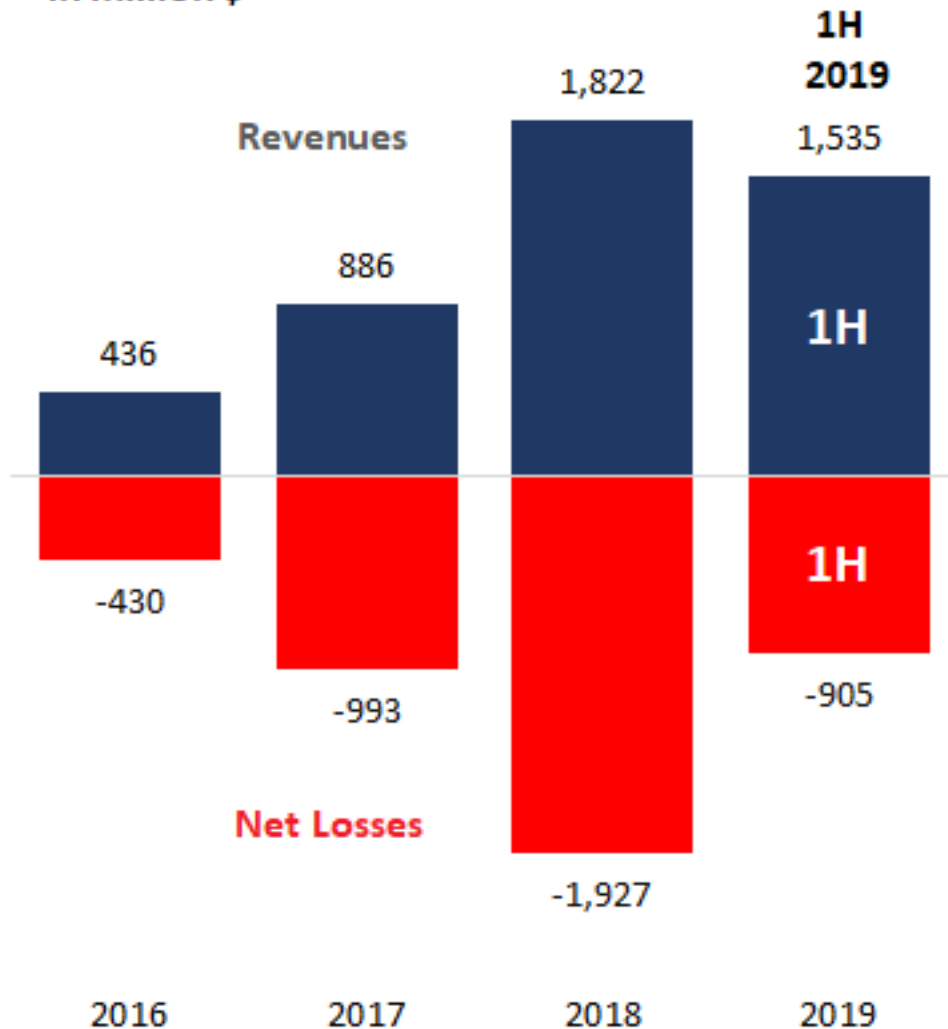
There is the full report from the *Wall Street Journal* about the growing list of potential conflicts. The Cable News Business Channel, better known as *CNBC*, ran an article profiling the strangest and most alarming things in the company's IPO filing. *Fortune* wrote it up right by saying that options for raising cash are narrowing. And finally, *Bloomberg* went with calling the prospectus 'an exercise in ducking reality', we while we aren't still sure if the 'd' was supposed to be an 'f', we do however know for sure that Softbank will be writing this one down as the last couple billion they put in was at a private market price of \$47 per share.

Our take home message is that WeWork needs to quit losing so much money, get a real capital structure, make all transactions arm's length, and not to file again until they've checked these boxes. Come back when you've grown up more and the market is ready for you. Is that too much to ask?

A Billion Here, A Billion There

We Co. Revenues & Net Losses

In million \$



Source: We Company S-1

WOLFSTREET.com

In other e-real estate news, Blackstone may have just jumped the shark when it comes to private equity real estate funds this week when it closed a \$20.5 billion fund named Blackstone Real Estate Partners IX. The previous record held was by Blackstone as well, where the final tally of dollars in the door dedicated to commercial real estate was \$15 billion. While commercial real estate value may be on the pricey side, there is no lack of momentum for e-retail fulfilment centers. A portion of the funds raised for Blackstone IX will be dedicated to this white-hot market.

Flipkart Warehouse



Source: FlipKart

Remembering T. Boone Pickens

We lost a big one this week when a baron of Wall Street, and wildcatter of the oil patch, T. Boone Pickens passed on at the age of 91. There is no question that Boone lived large, both professionally and personally. He made a name for himself early when he took his petrogeology degree and put it to work building Mesa Petroleum, which at one time was the largest independent producer of oil in the United States.



Boone Pickens would go on to become the largest benefactor to Oklahoma State University, in Stillwater. While no relation to our company, though we do like the OSU mascot. While Boone died a single man, there was no denying he was a romantic, having married and divorced five women over the course of his lifetime. He will be buried at Karsten Creek Golf Club, home to the OSU golf team. *The Dallas Morning News* provided a wonderful remembrance piece on a man who will be sorely missed.

Diversions

This weekend, over a hundred watermen and women will set out to cross the Santa Barbara Channel on paddleboards to embark on a journey called The Friendship Paddle, a gathering of like-minded souls who organize the event to provide emotional and financial support to people fighting life threatening illnesses. The group has been doing this for 16 years and has a great story to tell.

Santa Barbara local, and truly one of the best guys you'll ever meet, Mike Kelley, will be the 'Paddle' recipient for 2019. We don't plea for much very often, but once a year we do. Please take the time and donate to The Friendship Paddle.



While I might not be much a paddler myself, I've been lucky enough to be a part of the Friendship Paddle crew in years past and have also enjoyed being the 'chef de cuisine' for the landing party on several occasions. Proof of my participation can be found in the image below. Bonus cash for anyone out there who can guess which one in the picture is me.

Yyyeeewwwww!!



Source: The Friendship Paddle

A story 163 years in the making is about to be told on Broadway when *The Lehman Trilogy* opens next spring. The saga begins in Bavaria where our story's protagonist dreams of a better life for himself and ends with the firm's failure during the Global Financial Crisis. The story is really incredible as it follows the path of Henry and Emmanuel, the two who put the 'Brothers' in 'Lehman Brothers', from Europe, to Alabama, and eventually to New York City. The play is directed by Tony Award winner Sam Mendes and is produced in part by Barry Diller and David Geffen.

The Lehman Brothers, and Son



Source: Variety

When asked of his opinion of the show hitting Broadway, former Bear Stearns CEO Jimmy Cayne, responded, ‘What am I, the a\$\$hole around here? Ace and I had a waaaay better story!’

Wall Street Legend Ace Greenberg



Source: The New York Times

September 11th is always rough as the world remembers the events that took place 18 years ago. It can be tougher still for those of us who watched colleagues we knew well, or knew of, perish when the twin towers of the World Trade Center collapsed. As time passes, the horror of what we saw that Tuesday begins to fade, replaced instead by remembering some of the beautiful memories we once had. One of those was the iconic Windows on the World restaurant at the top of the south tower.

Fortunately for us, author Tom Roston has chronicled the life and times of Windows in his newly released book, *The Most Spectacular Restaurant in the World*. The website lithub.com does us the favor of printing the part that talked about the day before the world changed, Monday September 10th.

Windows on the World



Source: Literary Hub

Enjoy your week. And remember, if you don't like the news, go out and makes some of your own.

DISCLOSURE: *Stillwater Capital, LLC is a Registered Investment Adviser. Advisory services are only offered to clients or prospective clients where Stillwater Capital, LLC and its representatives are properly licensed or exempt from licensure. This website is solely for informational purposes.*

Past performance is no guarantee of future returns. Investing involves risk and possible loss of principal capital. No advice may be rendered by Stillwater Capital, LLC unless a client service agreement is in place.

Stillwater Capital, LLC provides links for your convenience to websites produced by other providers or industry related material. Accessing websites through links directs you away from our website. Stillwater Capital, LLC is not responsible for errors or omissions in the material on third party websites and does not necessarily approve of or endorse the information provided. Users who gain access to third party websites may be subject to the copyright and other restrictions on use imposed by those providers and assume responsibility and risk from the use of those websites.

General Notice to Users: While we appreciate your comments and feedback, please be aware that any form of testimony from current or past clients about their experience with our firm on our website or social media platforms is strictly forbidden under current securities laws.