



August 11th, 2017

The Top-Down

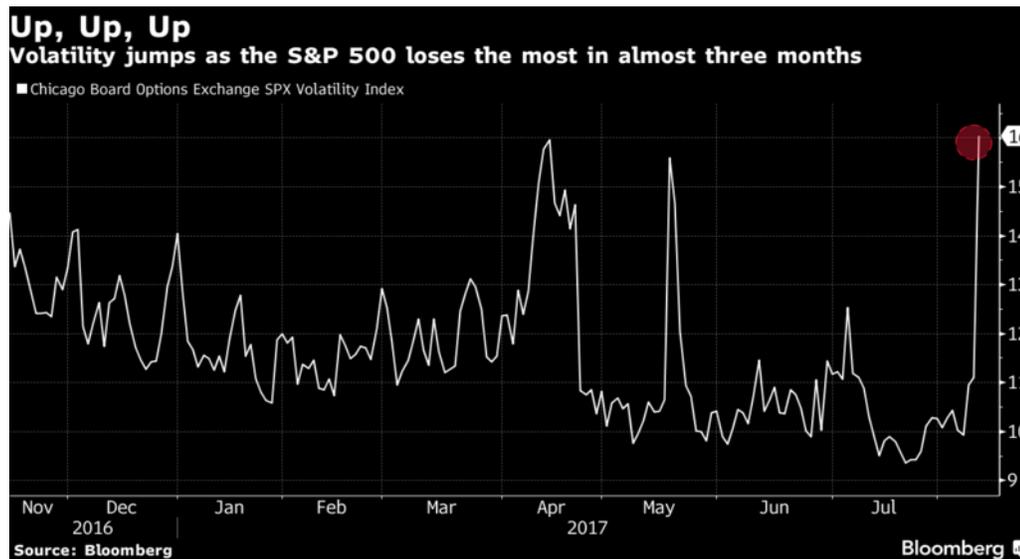
Geopolitics re-asserted its influence on the markets this week as tensions flared over an emerging [missile threat](#) from North Korea on the U.S. territory [Guam](#). Bridgewater’s Ray Dalio advises a [5%-10%](#) position in gold as we are seeing “two confrontational, nationalistic and militaristic leaders playing chicken with each other.” BlackRock’s Russ Koesterich is [onboard that trade](#) as well.



The political situation in Venezuela continues to deteriorate. Oil majors are [pulling employees](#) and [Credit Suisse](#) is restricting trading in certain government bonds. The [BBC](#) provides a look at what’s behind the turmoil as does the [Washington Post](#).

Stillwater View: External events, where they come from and where they lead, are the toughest for the market to discount. And for good reason. While these incidents may or may not develop into a material global event, the collective pressure from the theater of [political absurd](#) is a headwind not to be casually dismissed.

DoubleLine's Jeffrey Gundlach made an appearance on *CNBC* to explain his [long volatility](#) call that made headlines last week. Gundlach doesn't need a huge correction to make this position work. With volatility so low, only a modest correction of 5% in the S&P will make his trade very profitable, which it most likely already is given the [VIX spike](#) and equity selloff that started on Wednesday.



Stillwater View: The Stillwater Hedged Equity strategy has short positions in the S&P 500 (SPY) and large cap technology via the Russell 1,000 growth ETF (IWF). It currently holds individual short positions in Disney, IBM, and Wells Fargo, among others.

The Bottom-Up

Disney had a tough week when it reported [less than stellar](#) earnings. The continued [plunge in profits](#) at ESPN and the decision to pull content from Netflix and [go it alone](#) are proving to be strong headwinds for the company.

It's been two weeks since Wells Fargo's challenges were last mentioned here. Since then the company was forced to confess that even [more fake accounts](#) may have been created by employees. The sell-side [didn't take kindly](#) to the news, with Piper Jaffray responding, "here we go again".

Stillwater View: As previously disclosed, the firm holds short positions in both DIS and WFC.

If technology is indeed in some form of bubble, then the 2017 IPO's of Snap Inc. will have a chapter in the historical recounting.



The company came to market with an unorthodox capital structure where the shares issued had [no voting rights](#). None whatsoever. Corporate governance watchers called it out as an egregious breach of [common sense](#). On Thursday, the company missed analyst's [growth expectations](#). Just prior to the public offering NYU finance professor and Wall Street's dean of valuation, [Aswath Damodaran](#), provided his opinion of Snap's business model and company's worth.

Stillwater View: Credit goes to Mr. Damodaran for his call that the shares should be valued at \$11.00. SNAP opened this morning at \$12.28, down 60% from a \$30 post-IPO high. Great work and a good reminder that there is indeed a difference between value and price.

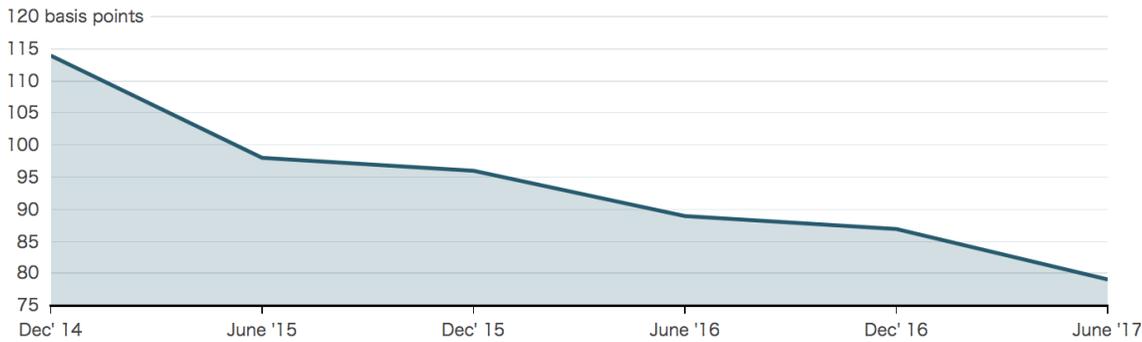
Up and Down Wall Street

ADP's CEO Carlos Rodrigues [unleashed](#) on Pershing Square's CEO Bill Ackman saying he was acting like a "spoiled brat" who wasn't ready for a mid-term exam.

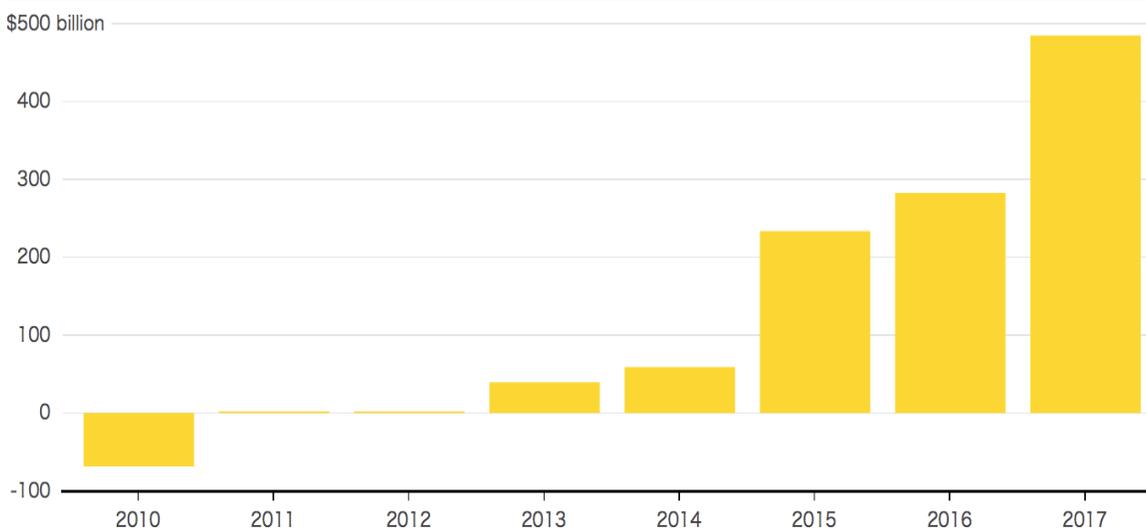
J.P Morgan's Jamie Dimon made an appearance on *CNBC* to discuss the [state of the country](#) as well as the secrets to him achieving a [fulfilling life](#), "family first, country second, and J.P. Morgan literally last."

Like the [Swallows to Capistrano](#), Wall Street professionals have once again embarked on their [annual pilgrimage](#) in search of stable employment, better compensation and greater career satisfaction. The news from [Pine River](#) isn't inspiring. Europe's largest alternative asset manager, [Man Group](#), highlighted the tough reality in the firm's most recent earnings report. Management fees have compressed 30% in a less than three years. And assets are flowing from active to passive at a breakneck pace. *Bloomberg's* Mark Gilbert reports the news in "[Devouring Capitalism.](#)"

Man Group's net management fee margin.



Net flows into U.S. based passively managed funds out of active in the first half of each year.



Stillwater View: Pay as little as necessary for broad market exposure, reserving dry powder for managers that can consistently outperform and alternatives strategies that can zig when the market zags.

Diversions

The [PGA Championship](#) is once again up for grabs as the final golf major of the year takes place at [Quail Hollow](#) in North Carolina. [Ernie Els](#) and [Phil Mickelson](#) are sharing a milestone as each is playing in his 100th.

A truly bizarre real estate tale emerged this week when the [San Francisco Chronicle](#) reported that a San Jose couple acquired the streets and sidewalks of the exclusive [Presidio Terrace](#) from the area's homeowners association that had failed to pay the [property tax bill](#) on time. The annual assessment was less than \$14. Former San Francisco Mayor and current U.S. Senator [Dianne Feinstein](#) sold her home there in 2014. Her handing out full sized Snicker bars on Halloween was the stuff of legend for every ten-year-old Bay Area kid.



Notes and follow-up from previous *Diversions*.

The Chronicle provides further [photo proof](#) of the wealthy and well connected taking over Black Rock Desert. The fact that Eric Schmidt was the only CEO candidate to go to Burning Man gave him the edge in getting the top job at Google. That turned out to be [money well spent](#). Carbon Beach in Malibu has some competition for the moniker [Billionaires Beach](#).



The [Mecum Auto Auction](#) is one of several events at [Monterey Car Week](#), which begins on August 15th. Saddle up the funds and you can walk away with something special. Like five-time Super Bowl Champion and Hall of Famer [Joe Montana's](#) 1989 Mercedes-Benz 560 SL Convertible. The "JOE49QB" license plate should be worth a few bucks all by itself. Number 16 [never lost a game](#), he just ran out of time.

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