

Stillwater Capital- This Week in the Markets

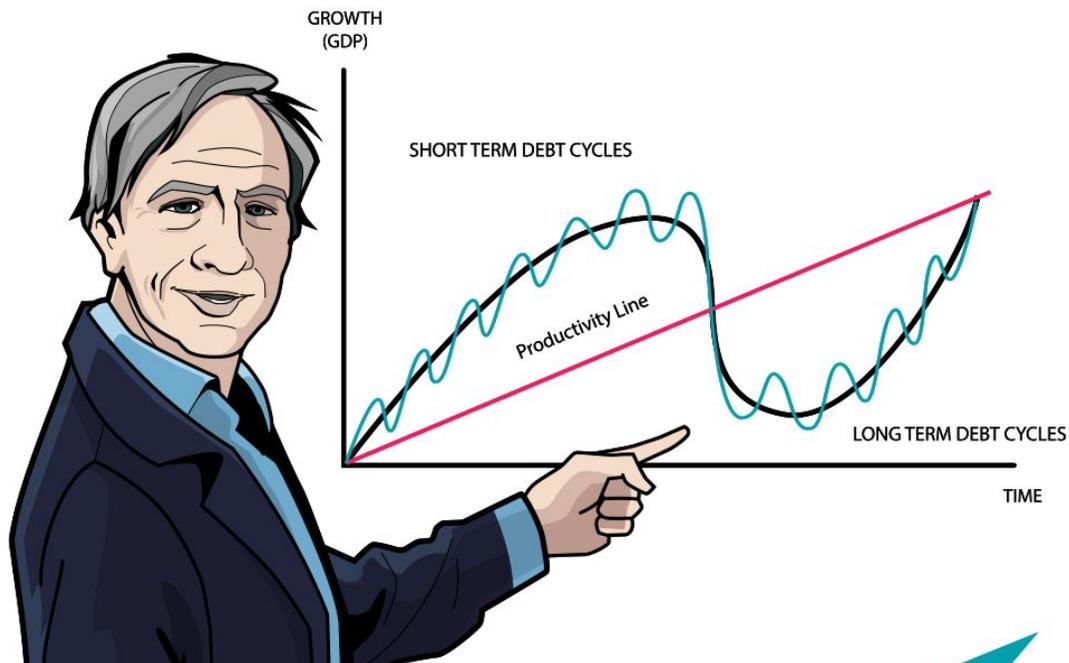


The Top- Down

Markets are once again off to the races in 2018, showing their best start in 30 years. Some see this as a harbinger of very good things to come.

Bridgewater's Ray Dalio , thinks the jolt of tax related economic stimulus is going to bring cash into the market, and you are going to feel 'pretty stupid' if you aren't invested. Which as he describes, is typical late cycle behavior.

Ray Dalio: How the Economic Machine Works



Source: ValueWalk

Oaktree founder Howard Marks, believes the easy money has been made. His first ‘memo’ since September of last year was released this week, providing a look at the tailwinds that brought us here and potential headwinds that lie ahead.

Howard in 2013 When Stocks ‘Were Cheap’



The cover of Barron's magazine features a portrait of Howard Marks, founder of Oaktree Capital Management. He is wearing a dark suit, a light blue shirt, and a patterned tie. The magazine title "BARRON'S" is prominently displayed in large white letters on a blue background. To the right of the title, it says "Dow 15,000 Very Likely By Year End" and "Page 15". The top of the cover has a yellow banner with the text "Dow Hits Fourth-Straight Record Close; U.S. Banks Look Healthy Page M3". The left side of the cover lists several articles with their authors and page numbers. The main headline on the right reads "WALL STREET'S FAVORITE GURU". Below this headline, there is a short bio of Howard Marks, mentioning that he is closely followed by Warren Buffett and other investing giants, and that he is bullish on commercial real estate.

Market Week Pullout Dow Hits Fourth-Straight Record Close; U.S. Banks Look Healthy Page M3

BARRON'S

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Very Likely
By Year End
Page 15

The Dow Jones Business and Financial Weekly Vol. XCIII No. 10 barrons.com March 11, 2013 \$5.00

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WALL STREET'S FAVORITE GURU

OAKTREE'S HOWARD MARKS is closely followed by Warren Buffett and other investing giants. Right now, Marks says **STOCKS ARE CHEAP**. He thinks **BONDS WON'T TUMBLE** soon. He's especially bullish on **COMMERCIAL REAL ESTATE**.

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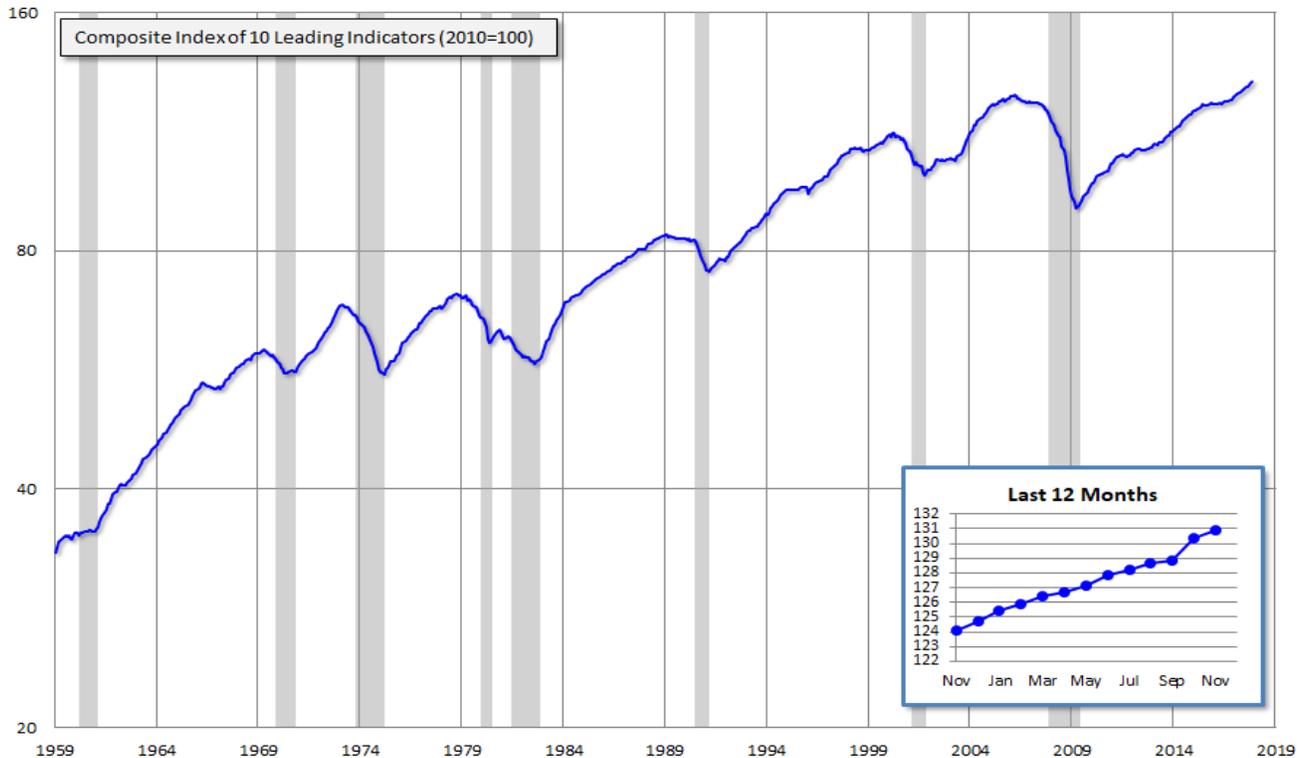
Source: Barron's

Stillwater View: If indeed this is the late cycle 'blow off' that so many are now calling it, be prepared for it to last longer than seemingly possible. We say that not because it's easy to buy, it's

not. But because the global economic engines are primed to perform at a very high level. With RPMs crossing the redline.

Yesterday the Conference Board released their reading of leading economic indicators, and the index of LEI shows no sign of letting up. Rising to a post-recession high with a gain of 0.6% in December. Strength in new industrial orders led the move.

Leading Economic Indicators



Source: Advisor Trends

The Conference Board's reading Leading Economic Indicators (LEI) is the third of Stillwater's four engines to watch and shows no signs of throttling back. Though this morning's weaker than anticipated fourth quarter GDP print might provide a little pause.

Cruising Through Clear Air



Source: BBC

Unlike unemployment and earnings, LEI is a dispersion index of several economic readings, including:

- The monthly employment report
- The initial claims for state unemployment insurance
- The monthly consumer goods and materials report
- The monthly non-defense capital goods report
- The monthly report on building permits
- The spread between 10-year Treasury Bill interest rates and the federal funds rate
- The central bank's inflation-adjusted measure of the M2 money supply
- The ISM manufacturing index
- The S&P 500 index
- The University of Michigan Consumer Sentiment Index of consumer expectations

Davos

It was all Davos this week where financial and political leaders gathered in the Swiss mountain town under the banner of globalism. This year's theme, "Creating a Shared Future in a Fractured World".

Davos 2018

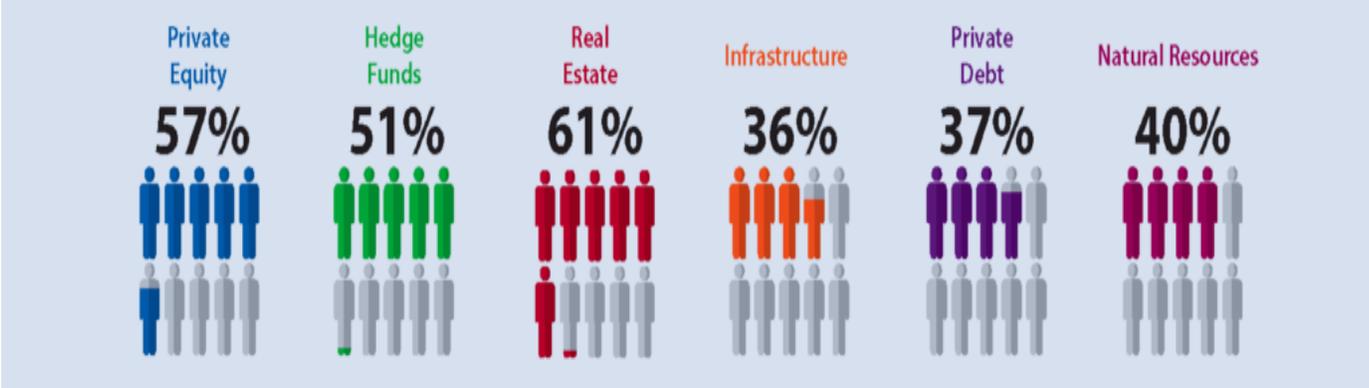


Source: Getty Images

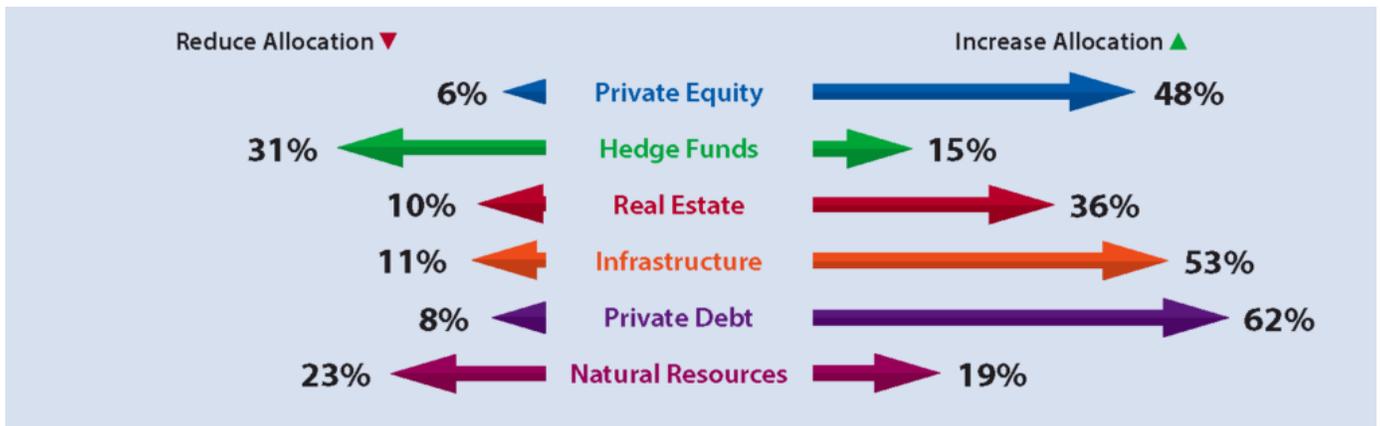
Wall Street was out in force, ahead of today’s speech by President Trump as the world warms to ‘Trumponomics’. J.P Morgan’s Jaime Dimon provides his opinion that 4% growth is possible this year, given the tailwind of tax and regulatory reform.

Blackstone’s Stephen Schwarzman expects a polished performance from the president. He and his Vice Chair John Studniski talked Blackstone’s book while promoting higher exposure to alternative investments.

Institutions Allocating to Alternatives by Asset Class



Allocation Tilt to Alternatives by Institutional Investors



Source: CAIS Alternative Outlook 2017

Carlyle's David Rubenstein sees the tax bill as positive for his business and private equity valuation. He opined that tax related stimulus could extend this expansion into the longest in history.

Financial service companies are appealing to him, including asset managers, as the wealth creation wave continues. Carlyle recently rang the bell on a majority of its stake in fixed income manager TCW.

The biggest macro news coming from Davos was the Secretary of Treasury Steve Mnuchin's admission that he favored a weaker dollar and the domestic growth it helped stoke. He went on to say that the short-term dollar value was 'not a concern of ours at all'.

U.S Dollar Index



Source: Macrotrends

The Bottom-Up

Netflix reported earnings and Wall Street fell in love with the shares once again. Rallying them 20% in short order. The company added 8.4 million subscribers versus estimates of 6.2 million. The ‘upside surprise’ added \$15 billion in market capitalization this week alone.

Buckingham Research downgraded the stock based on the sizeable \$3 billion to \$4 billion in negative free cash flow the company is likely to report this year. This was only the second buy-side downgrade of Netflix shares since 2016.

Netflix



Stillwater View: The firm has previously tried, with very limited success, to wager against the shares of Netflix based on increased competition, rising debt levels and the sizeable hole in free cash flow.

Industrial products supplier, Grainger Worldwide provided further evidence that the economy was accelerating at a decent clip, reporting fourth quarter earnings well ahead of consensus on a 6.5% rise in revenue. The shares rallied 18% on the news.

Grainger Worldwide



Source: Nasdaq

It was a tough week for the airline sector as United provided the Street reason to be concerned that the notoriously cyclical business was about to start sacrificing profits for passengers again. Warren Buffett's \$11 billion investment in United, American, and Delta lost \$700 million when the sector sold off.

United Airlines



Source: Nasdaq

Stillwater View: The firm has held a short position in Hawaiian Holdings, the parent of Hawaiian Airlines, based on increased competition as Southwest enters the balmy and very tropical market.

Up & Down Wall street

CNBC did a little piling on this week when they reported that activist hedge funds did indeed have a pretty lousy 2017.

Most notable was Bill Ackman's Pershing Square, which saw a third down year in a row. The 4% loss in 2017 followed a 13.5% drop in 2016 and a sizeable 20.5% drawdown in 2015. All of this has led investors to the door, as assets have declined from \$15 billion three years ago to \$9.3 billion today.

Bill 'Baby Buffett' Ackman in 2015

THE COMING BOND MELTDOWN • MEET THE DRONE BILLIONAIRE

SPECIAL 2015 EDITION

Forbes

ALPHA ACTIVIST
BILL ACKMAN

"WE'RE BUILDING
SOMETHING WE WANT TO
OWN FOR YEARS."

THE GLOBAL
2000

BIGGEST
AND BEST
COMPANIES

CAN VISA
KILL OFF CASH?

HONDA
LEARNS TO FLY

HALL OF FAME
CEOs

BABY BUFFETT

WALL STREET'S LOUDMOUTH BANKED OVER \$1 BILLION LAST YEAR.
NOW HE'S QUIETLY CREATING THE NEXT BERKSHIRE HATHAWAY.
(WANT IN?)

Stillwater View: The Sports Illustrated cover photo jinx has company.

Meanwhile, the *Wall Street Journal* reported on the power struggle within Och-Ziff, the largest publicly traded hedge fund. Dan Och founded the company in 1994 with \$100 million of the Ziff publishing family money, growing assets to \$50 billion at its peak in 2015.

Och-Ziff



Source: Nasdaq

Stillwater View: Hedge fund 'companies' should never be available in publicly traded form. Unless of course they have a Cryptocurrency or Blockchain angle.

In related hedge fund news, SkyBridge is mixing it up for 2018, and the SALT conference will be taking a break from Las Vegas. Anthony Scaramucci and Co. will instead be taking a group of 'platinum partners' to China for a five-day tour that will include several of the country's financial and manufacturing centers. The SALT conference will return to Sin City in 2019 for its 10th anniversary.

Bird Mobile Manufacturing Plant #15, Zhejiang Province



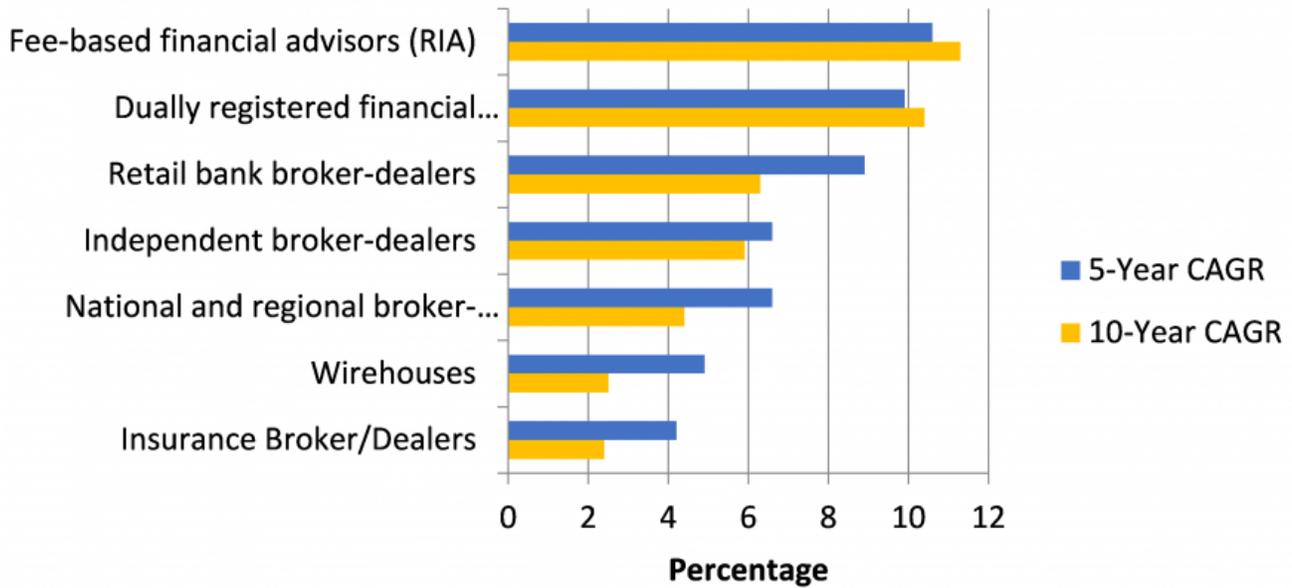
Source: Open Society Foundation

The Broker Protocol, an accord reached in 2004 that created a set of guidelines for what kind of client information financial advisors could take with them if they left the firm, continues to unwind.

Late last year, UBS announced plans to abandon the agreement. Morgan Stanley beat them to the punch, departing three months prior, and has come out swinging in terms of non-solicitation enforcement. Citigroup has made it known that they intend to get out in 2018 as well.

Financial Planning magazine provides a look at what has changed and what remains the same in the brokerage and registered investment advisor world. More importantly, what it means for the career path of advisors and financial planners..

Growth Rate by Asset Manager Type



Source: Tiburon Strategic Advisors – June 2017

Diversions

The PGA’s ‘West Coast Swing’ kicked off yesterday in Del Mar, California where Tiger made his return to the Torrey Pines course he knows so well, having won the 2008 U.S. Open on the sandstone bluffs overlooking the Pacific.

Thursday’s highlight was his near ace on the 223-yard par three 16th. Next up on the ‘Swing’, The Pebble Beach Pro-Am and the Los Angeles Open.

Tiger Woods at The Farmers Open



Source: Golf Digest

Oscar nominations are in and *Variety* provides the full list of selections. This marks the 90th anniversary of the Academy Awards, which will take place on Sunday March 4th at the Dolby Theater in Hollywood.

Over under on jokes referencing last year's 'La La Land/Moonlight' Best Picture mix up, six. Meanwhile, former Obama administration official, Maria Contreras-Sweet is leading a group that is putting a final bid together for Weinstein Co. If successful, the company will then be run a by board with a female majority.

'La La Land's' Premature Acceptance



Source: The Los Angeles Times

A parcel of President Johnson's Texas Hill Country ranch is for sale. The original home and secret service office still exist and are included in the offering. As is the hanger that current owner, and sculptor, Bernini converted into a gallery.

The Sculpture Ranch



Source: Town & Country

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