

Stillwater Capital - This Week in the Markets



The Top- Down

The markets began the week just where they left off last Friday, deep in the red. And as the week progressed, things only got worse. At its low on Monday, the Dow Jones Industrial Average shed over 1,500 points. Adding another 1,000 to the downside total yesterday. And hedge fund managers of almost every stripe proceeded to lick their wounds.

Down is Faster for the DJIA

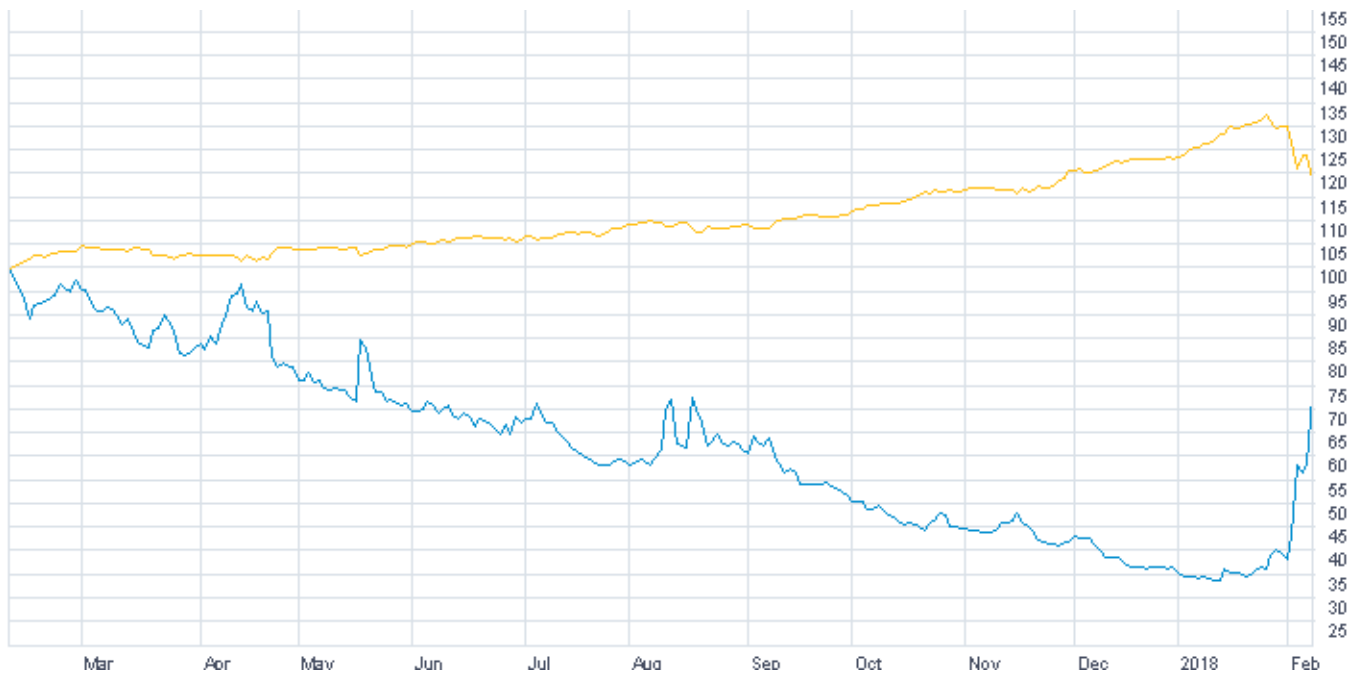


Source: Macrotrends

With no bid in sight, the question has become, ‘did the machines take over?’, with the blame quickly turning to the long stocks/short volatility trade. Those long this previously idyllic trade, found out in a hurry what it feels like to be on the wrong side of the market.

Profits evaporated, and a now notorious exchange traded note tied to the pair trade, lost 90% of its value. *Bloomberg* reports, those who were on board this ride were ‘picking up nickels in front of a steamroller’.

VIX vs. DJIA



Source: Nasdaq

Stillwater View: Since we are long metaphors here at Stillwater, let's introduce another one. This time involving fault lines and earthquakes of a different magnitude.

As they say out here in California, small tremblers that let off a little steam once in a while, are a very good thing. Simply put, they relieve pressure that's building under the surface.

This market had gone nary a year without even the slightest fault slip. And while it's only been a 10% pullback, the speed at which it occurred has market participants wondering what's next.

Checking the Damage



Source: Nature

The New York Times' Andrew Ross Sorkin reports the fear this market faces is that tax cuts could possibly work *too* well. The most likely result being an uptick in inflation soon headed our way.

Wage Growth

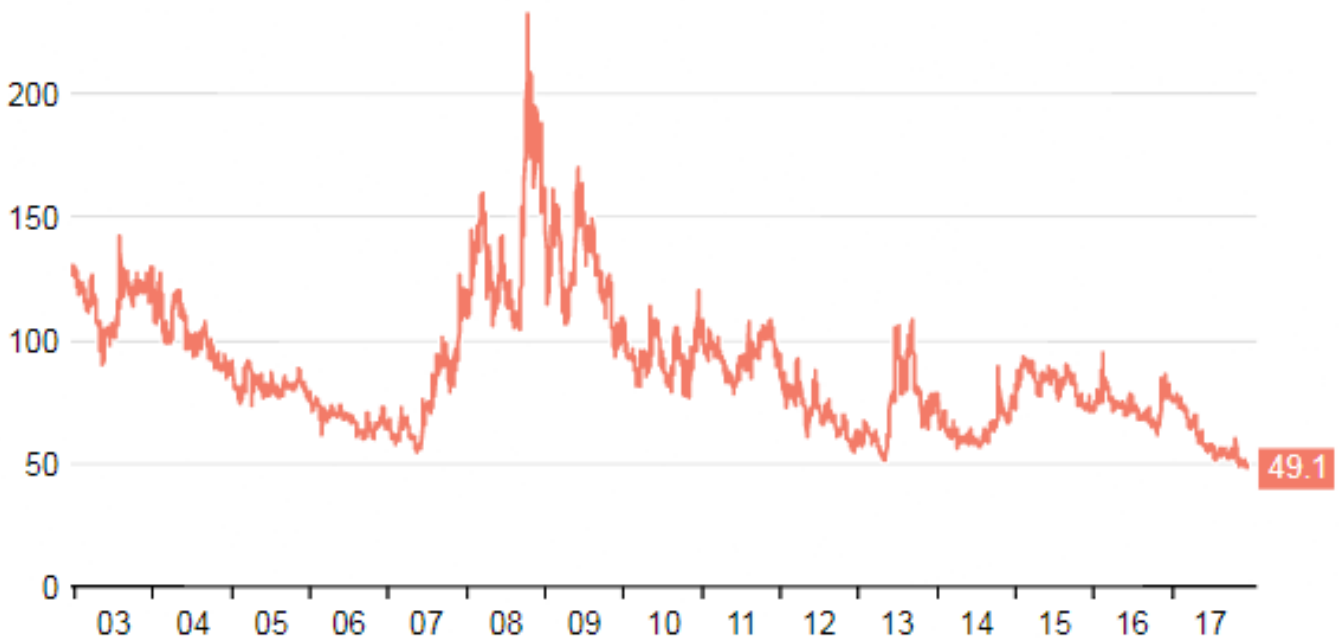


Source: New York Times

Stillwater View: It's incredible to think that the slightest increase in wages on the far side of the chart, might very well be the little butterfly who flapped it's wings, and subsequently started a global tsunami of rate normalization. Namaste.

The torch has now been passed from the era of ultra-low inflation and interest rates, to a new and perhaps more normalized existence. That in and of itself isn't scary, as long as it's contained and vigilante justice stays at bay.

Bond Market VIX



Source: CNBC and Thompson-Reuters

The Bottom-Up

Snap Inc. and Twitter did their best impressions of Facebook this week. Rising from their post IPO deathbed to join the party.

Snap proved their skeptics and short sellers wrong, when they announced revenues and earnings well ahead of Street expectations. Meanwhile, the move from 140 to 280 characters has helped Twitter join the ranks of profitable publicly owned companies.

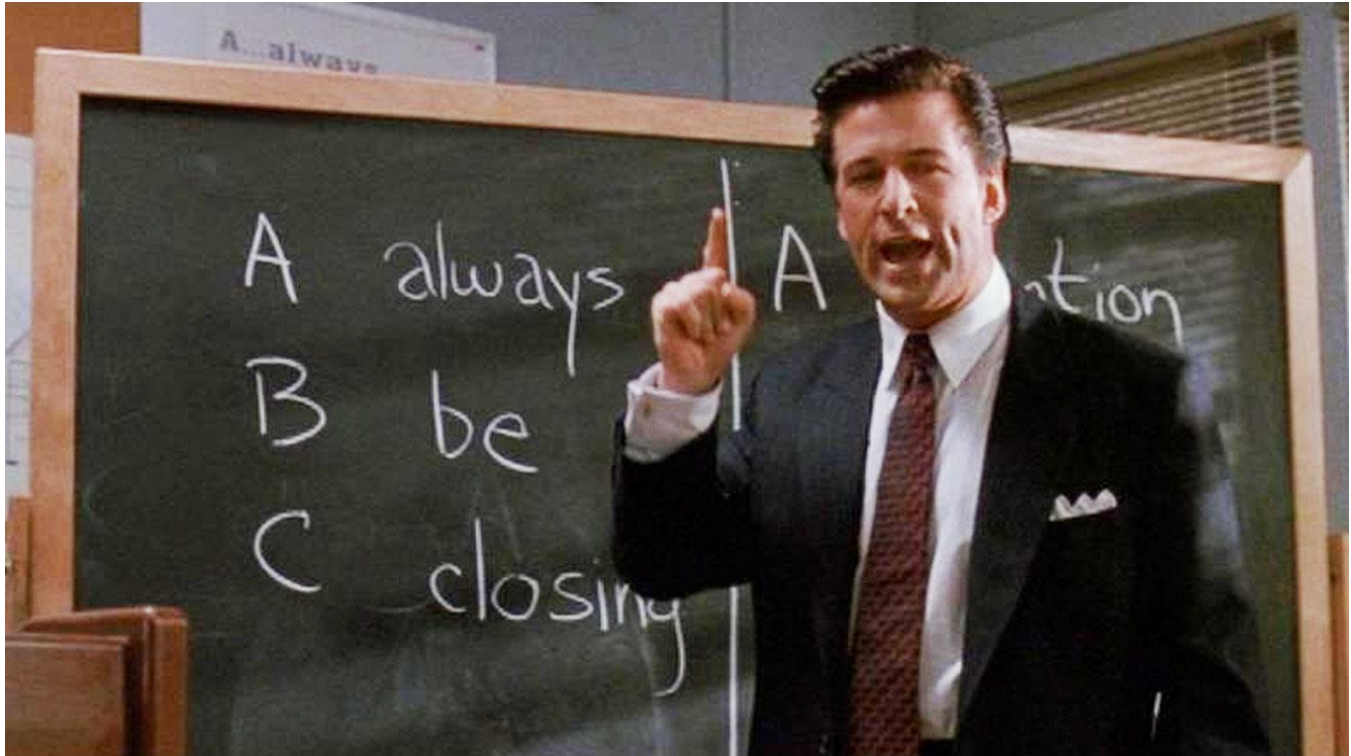
Twitter & Snap Inc.



Source: Nasdaq

The Fed pulled out the ugly stick and gave Wells Fargo a full whack to the head last week. Removing four board members and curtailing the banks' ability to grow until they show an ability to operate more like a traditional lender and less like Premier Properties.

'ABC = Always Be Closing'



Source: Glengary Glenn Ross

Stillwater View: Ever since last year, Wells Fargo has been a favorite short position of Stillwater Capital, albeit a frustrating one as well. We got the fundamentals right, as a cloud of shady sales practices most certainly hangs over the company. However, the timing of the trade has been a challenge.

The stock itself has been on an upward march along with the rest of the banking sector since late last year. Stillwater recently paired off the short in Wells with a long position in Morgan Stanley and the trade has been working.

Wells Fargo vs. Morgan Stanley



Source: Nasdaq

Up & Down Wall Street

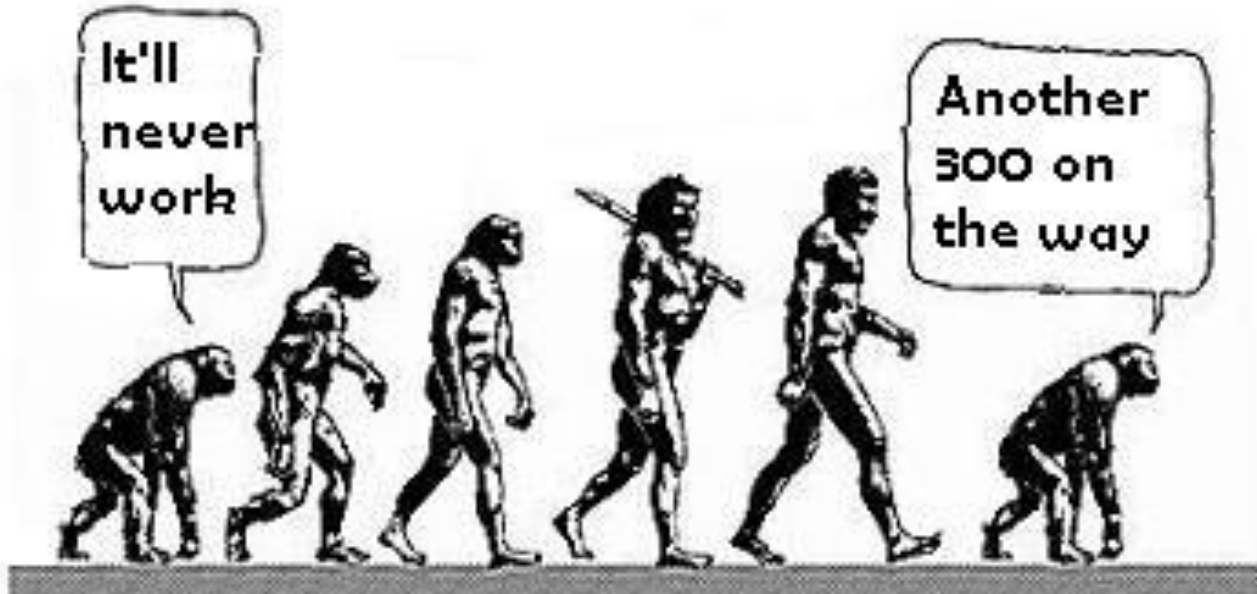
When you shake the market this hard, a lot of opinions are going to fall out as to what caused all of this to happen.

Carl Icahn provides a dire warning, claiming the market will one day implode ‘because of these wacky levered products’. Omega’s Lee Cooperman called on regulators to step in and start taking a closer look before the best capital markets in the world are destroyed. And finally, Jim Cramer shared his view that VIX derivative products were ‘practically designed to fail’.

Stillwater View: Wall Street and the investing public’s have long had a dysfunctional relationship with these products. Investors certainly love them when they work, easily falling prey to their intoxication. Their carnival barkers becomes the bartender, setting up doubles and triples as the party rages on, keeping the place open well past ‘closing’.

Intended for better, but usually for worse, regulators have a tendency of showing up after the bar fights break out, and as a result people get hurt.

Evolution of the ETF



Source: Sage Investor

Morgan Stanley's Global Market Strategist, Ruchir Sharma, penned an op-ed piece on Wednesday proclaiming that 'The Stock Market is Volatile Again, Get Used to It'

He also made the rounds on CNBC and Bloomberg to explain his view. This week's market selloff was the 'first crack' and he thinks we will be directionally lower over the next 12-18 months.

Stillwater View: Stillwater's Trinity Equity came into this selloff hedged, While that kept us from fully participating in January's market melt up, it also produced positive low volatility returns on Friday, Monday and again on Tuesday. No small feat given the extreme moves in the market.

If you or your clients are looking for a solution that can help smooth the ride in a changing and unpredictable market, let's have a conversation. Preferably on the front end, not the back, of an ever evolving outlook.

Stillwater Trinity Equity



Trinity Equity invests in companies with growing earnings in expanding markets with defensible business models in all sectors of the economy. The strategy takes short positions in companies where we believe that deteriorating fundamentals are not reflected in the share price. We also use short positions to hedge downside risk to our long positions. This strategy provides the broadest market exposure of all our hedged solutions.

By investing in growing companies, we can participate in the most dynamic segments of the economy. Whether it be a company that brings a new distribution model to the market that changes the way the consumer thinks about purchases or an oil service business that helps producers better understand the geology of their fields, these enterprises are on the front edge of the growth curve.

The strategy invests or sells short securities in the following areas.

Health Care

Technology

Industrial

Consumer Discretionary

Consumer Staples

Energy

Finance

Utilities

REITs/MLPs

The strategy is managed by an experienced portfolio manager with over twenty years of knowledge in hedged equity investing. The same philosophy and process used to identify opportunities for Trinity Equity has proven successful with other strategies.

Offered in a separately managed account form, where the investor has full view into the portfolio, the strategy provides liquidity, transparency, and a flat management fee without a performance carry or K-1 partnership reporting.

Stillwater Trinity Equity is a powerful investment solution that enhances the return potential of a client's portfolio. By combining growing companies with short positions to hedge market risk, the strategy contains the features needed to provide upside capture and downside protection over a full market cycle.

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Diversions

The XXIII Winter Olympic Games got underway yesterday, with opening ceremonies being telecast tonight on NBC at 8:00 eastern. Mike Tirico takes over the broadcast helm from Bob Costas and Curbed provides a photo tour of every Olympic venue.

Olympic Stadium



Source: PyeongChang 2018

On the subject of games of the winter variety, Stillwater Capital presents the mid-season ski report. This year's theme...pray for snow!

California – Marginal, with most bases showing less than 50 inches of snow. The last dusting took place in late January and it's been spring skiing ever since.

Colorado, Wyoming and Utah – Sadly, not much better. The states saw snow last week, but it was a small storm that only added a few inches of the fresh stuff.

Montana – The Treasure State has been the beneficiary of some early seasons storms and can boast the best conditions in the west. Beautiful Red Lodge Mountain recently got slammed.

Red Lodge, Montana



Source: www.redlodge.com

While the year is still young, we have already lost two deans of the fine sport of skiing. Ted Johnson, who teamed with Dick Bass to build the Snowbird Resort, passed away in January. The 'Silver Fox' worked at neighboring Alta for ten years before pursuing Bass and his financial backing.

Film legend Warren Miller also went to the big powder bowl in the sky at the age of 93. The release of his annual film coincided with the start of ski season and rivaled 'The Rocky Horror Picture Show' in terms of its cult status.

Warren Miller at Mammoth



Source: Inside SoCal

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