

Stillwater Capital - This Week in the Markets



This Week in the Markets

With end of the quarter obligations and an increased travel schedule, “This Week in the Markets” took a hiatus last week.

Stillwater looks to get back to our regular Friday morning distribution next week. We thank you for your readership.

Stillwater Q1 2018 Performance

With the first quarter of 2018 now fully in the books, Stillwater is pleased to report that our primary hedged strategy, Stillwater Trinity Equity, returned 3.59% during the period.

This was during a quarter when the market showed increased volatility with several swings of greater than 2% intraday. The strategy was managed with a net exposure of less than 50% long for the period.

Stillwater Trinity Equity	3.59%
S&P 500	- 1.22%
Dow Jones Industrial Average	- 2.42%
Morningstar Long/Short Average	- 0.60%
HFRX Hedge Fund Index	- 1.30%

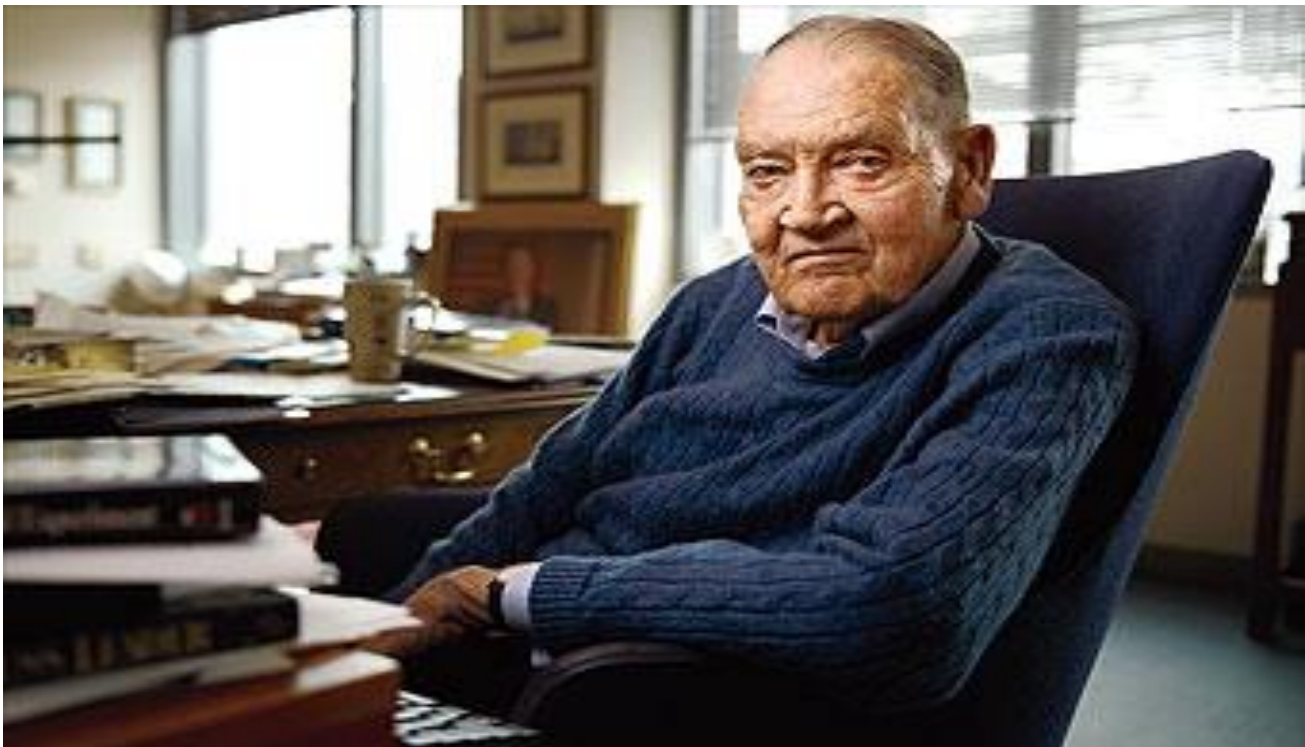
These results were the product of strong security selection and effective hedging. This bodes well in a year that is shaping up to look a lot different than the previous few.

We welcome the opportunity to talk with new and existing clients, as well as advisors and distribution partners about ways we can work together to advance the cause of effective, goals based, asset allocation.

The Top- Down

Think the recent bouts of volatility in the market are surprising? You're not alone. Vanguard founder Jack Bogle said this week that he hasn't seen a market this volatile in his 66 year career. Yet one person's 'bad volatility' is another's 'good'.

Jack Bogle

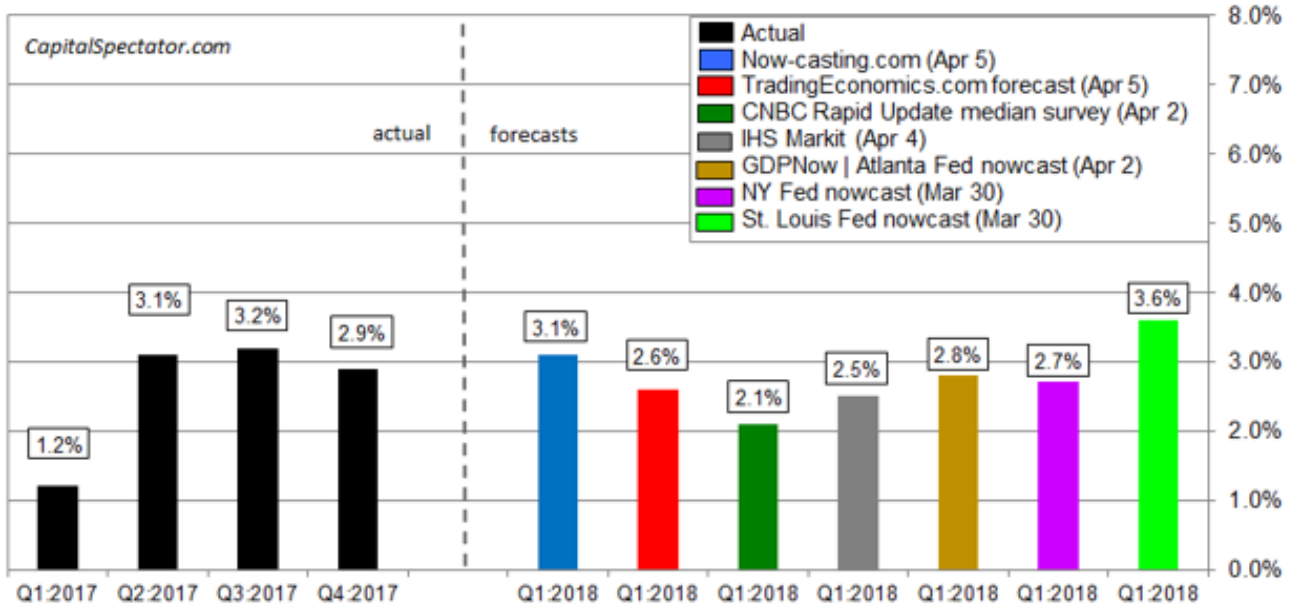


Source: Vanguard

Stillwater View: We have a feeling that this guy has seen a thing or two, or three, or four. You can expect more volatility in the year ahead. Don't be surprised by it, instead be prepared.

First quarter Gross Domestic Product will be released later this month and estimates continue to point to good, but not necessarily great, economic growth.

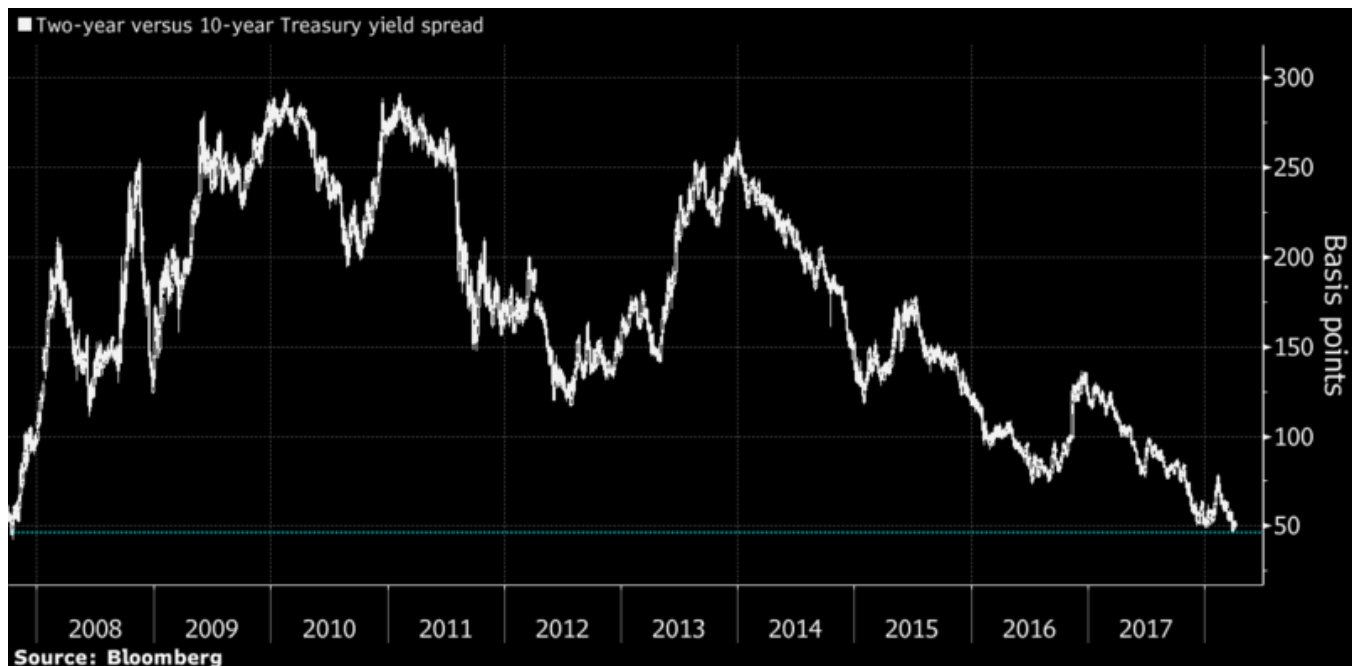
Q1 2018 GDP Estimates



Source: Seeking Alpha

Meanwhile, the yield curve has begun to flatten and is 50 basis points away from outright curve inversion. A situation that signals concerns over rate policy and the rising risk that late cycle growth will soon transition into recession, mild or otherwise.

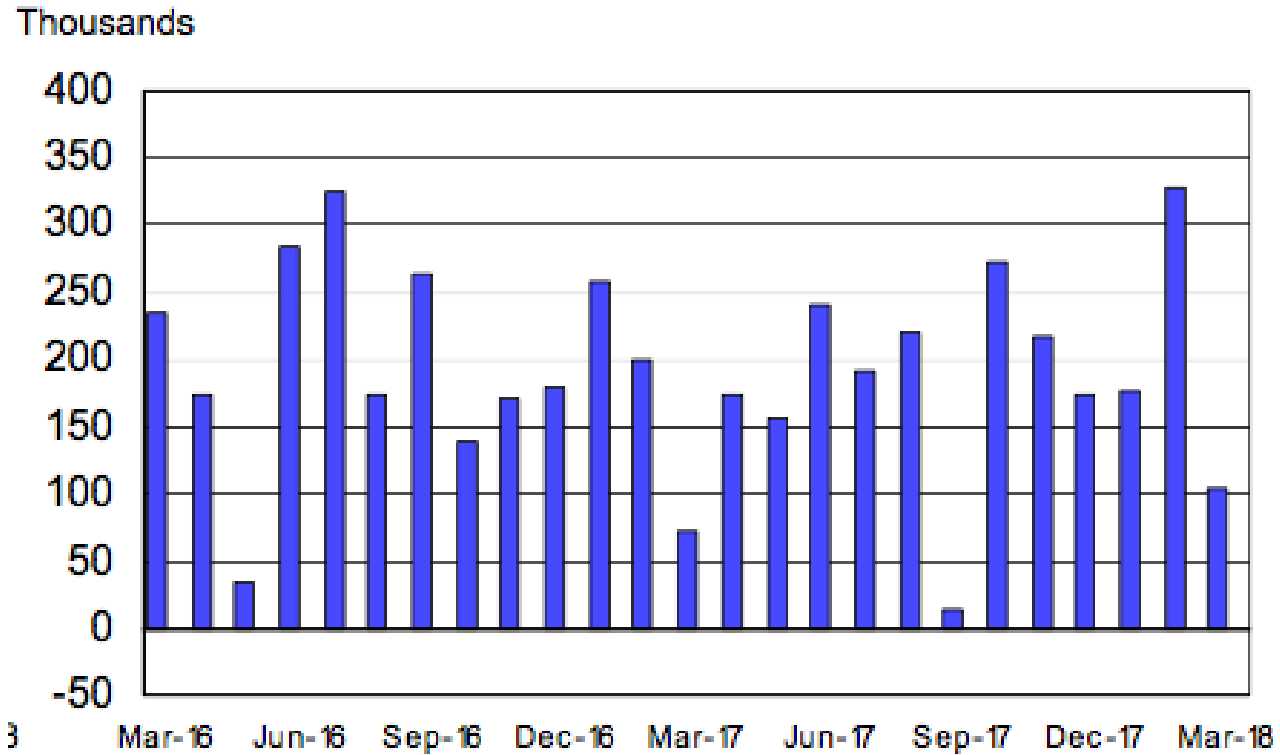
Narrowing Spreads



Source: Bloomberg

Last Friday, the Labor Department released the March employment situation report. One of the most highly watched indicators for the economy. This most recent ‘jobs number’ disappointed when 103,000 jobs were added versus Wall Street expectations of 180,000.

March Jobs Disappoint



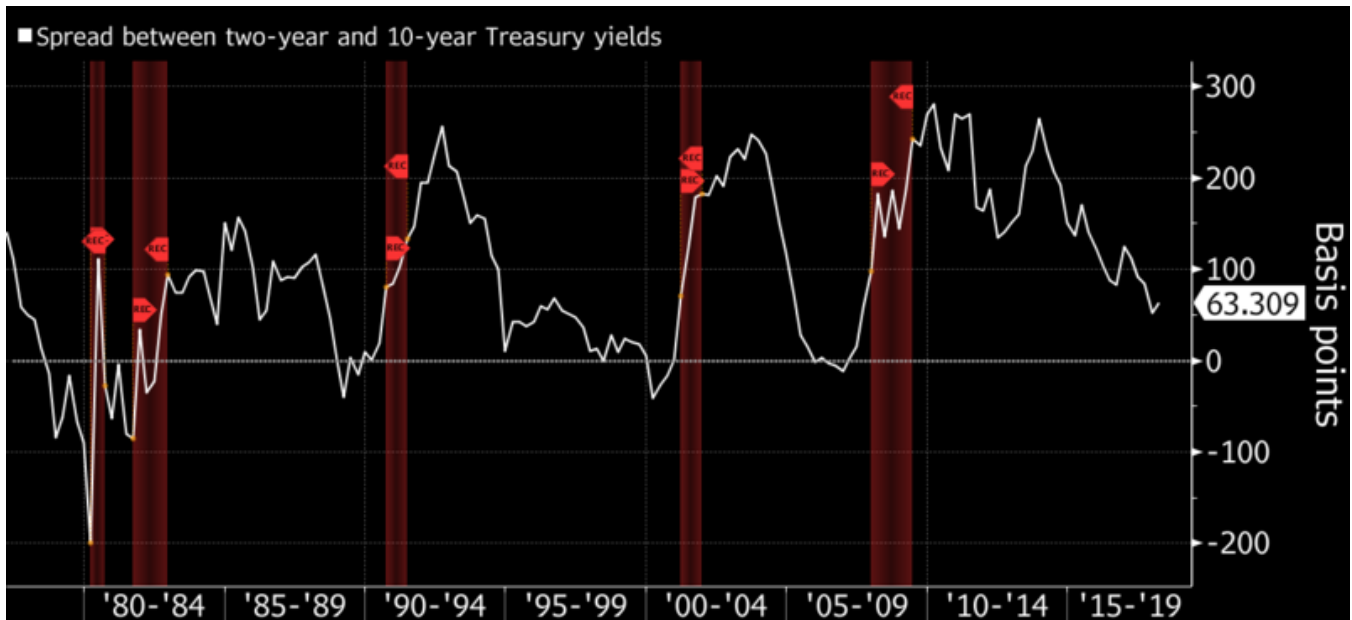
Source: Bureau of Labor Statistics

Stillwater View: A big part of what we do from the top-down perspective is attempt to collage together a picture of what the markets think is happening with the economy and if the reality is something different.

While these are only a few data points, they are beginning to show a change at the margin that would fit the narrative of an economy in late cycle transition.

Of the three, our biggest concern is the yield curve and it's move towards inversion. You need to go back almost a decade to see a similar cycle.

Flattening Precedes Recessions



Source: Bloomberg

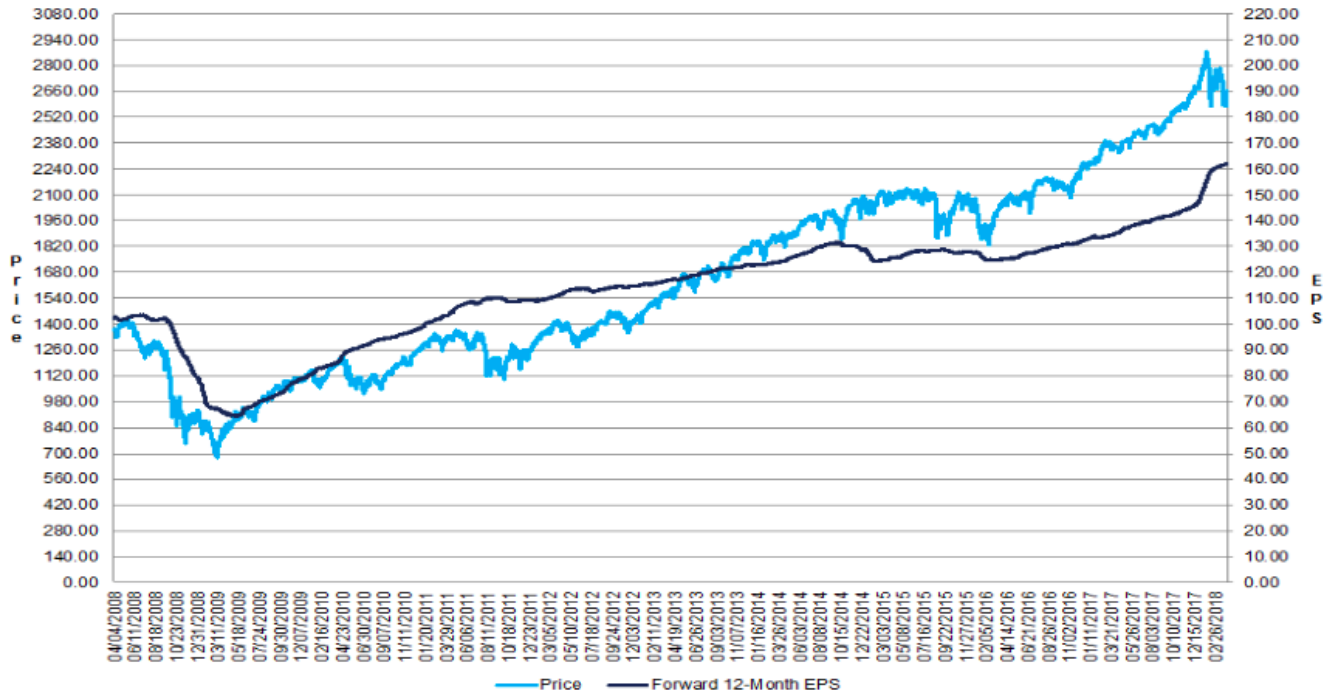
And while a lot has changed in the markets since then, there is a concern that too much money is stacked into index or derivative products and if the 'sell' button is pressed en mass, January and February's volatility is going to look like a cake walk.

The Bottom-Up

Companies will start reporting earnings later this week and the 90 day cycle begins anew.

As FactSet reports in their weekly Earnings Monitor, if Q1 2018 growth for the S&P 500 comes in at the 17.1% expected, this will be the strongest quarter for growth since the first quarter of 2011.

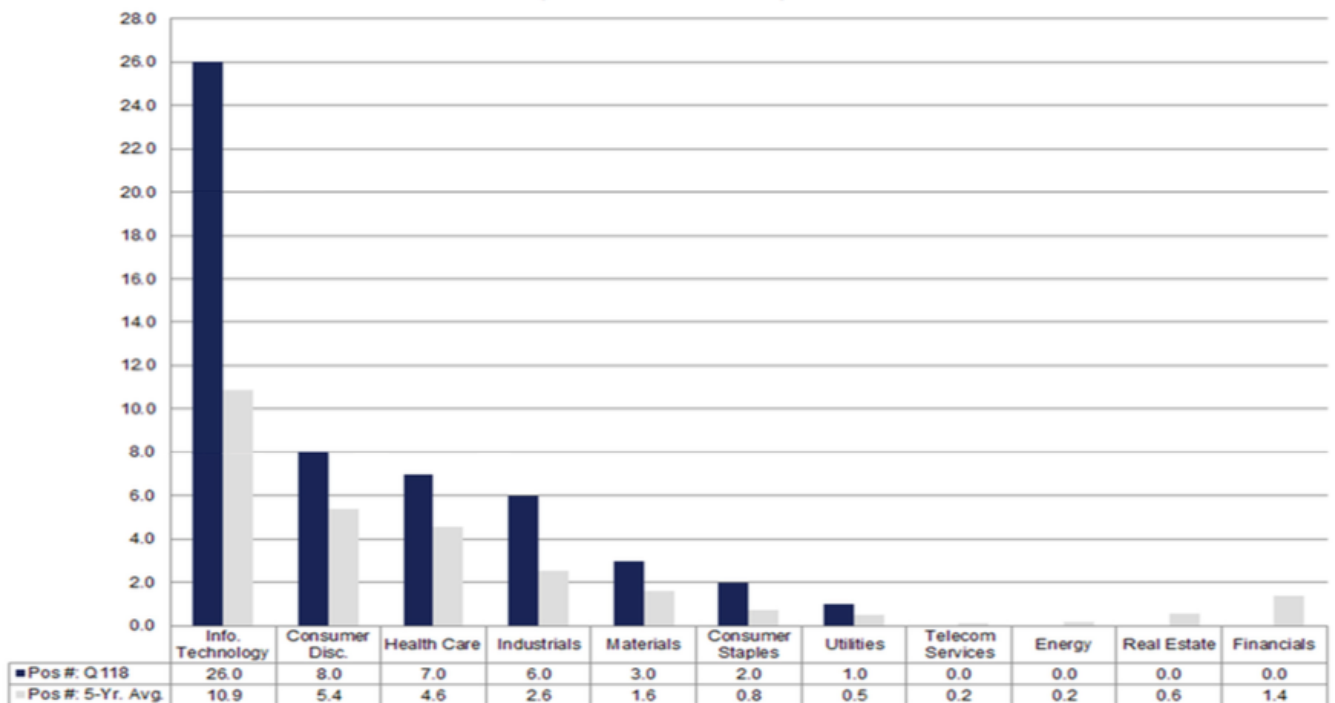
EPS Growth vs. Market Price



Source: FactSet

With technology as the expensive sector that the momentum oriented ‘beat and raise’ crowd wants to party with.

Sector Level Guidance Revision



Source: FactSet

Stillwater View: We can't emphasize enough how important the strong earnings tailwind has been for this market. It alone can cancel out much of the noise surrounding trade wars, yield curves and subpoenas from Robert Muller.

Things got a little weird two weeks ago when Tesla founder and CEO, Elon Musk, decided that Twitter would be a good place to joke with the public that the company was going bankrupt.

Musk wrote “Despite intense efforts to raise money, including a last-ditch mass sale of Easter Eggs, we are sad to report that Tesla has gone completely and totally bankrupt,”

Another post included a photo of Musk and a message that he “was found passed out against a Tesla Model 3, surrounded by ‘Teslaquilla’ bottles, the tracks of dried tears still visible on his cheeks.”

Elon Springs an April Fool's Tweet



Source: Elon Musk

Stillwater View: Stillwater loves some good humor. Having said that, when the CEO of a publicly traded company decides to joke about bankruptcy, certain lines have been crossed.

Though we appreciated the help it provided our short position, spurring a new round of selling in the shares of Tesla.

Tesla vs. S&P 500



Source: Nasdaq

Up & Down Wall Street

David Einhorn's Greenlight Capital continues to struggle in 2018, posting a 14% loss through the end of the first quarter.

While it sounds good on paper, his 'Bubble Basket' of short positions has caught up with him in a big, and not so pleasant, way. His long positions in General Motors, Ensc0, Time Warner, and CONSOL Coal Industries haven't been helping much either.

Einhorn at the Poker Table



Source: WSOP

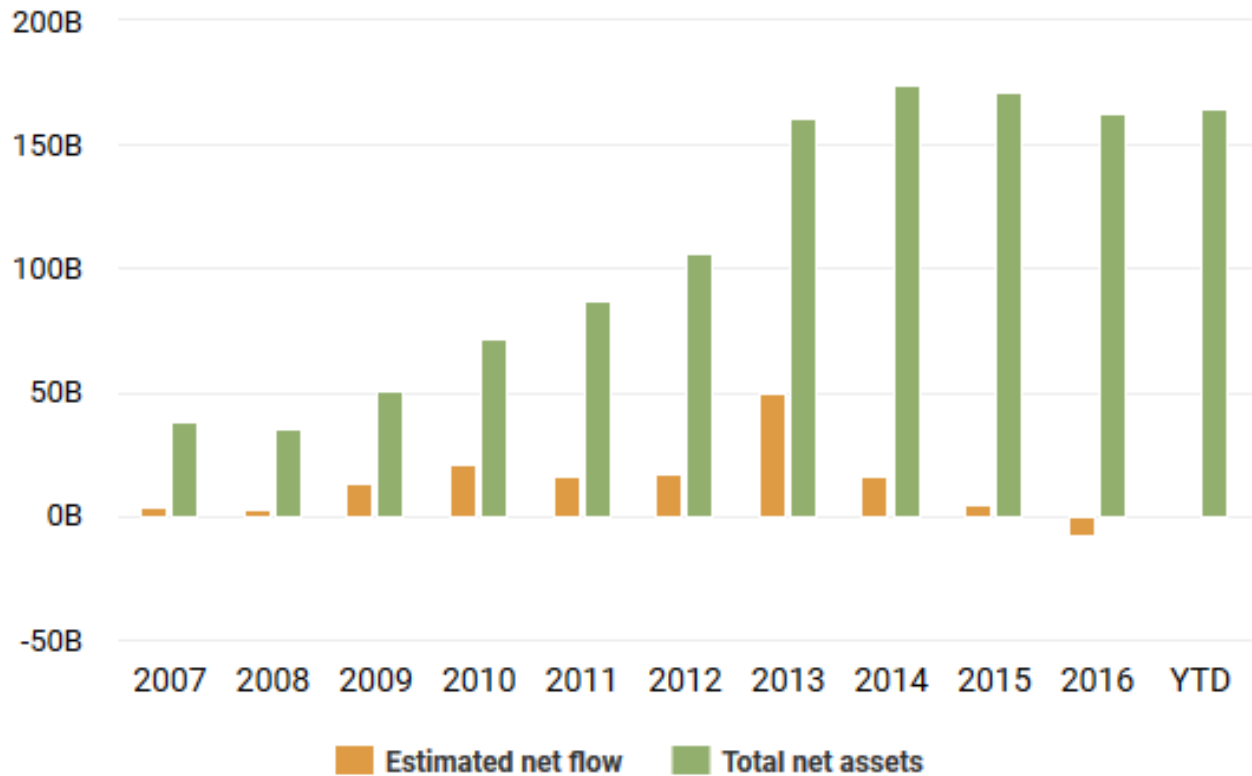
Stillwater View: Rule number one, don't short on valuation. Markets can stay irrational longer than you can stay solvent.

Being down 14% against a performance high-water mark is an extremely difficult position to be in. Just ask Bill Ackman.

Hedge funds in general are having a less than stellar 2018, as the HFRI hedge fund index is down 1.2% on the year.

Their mutual fund co-patriots aren't faring much better. The Morningstar long/short equity category is down 0.60% on average through March 30th, providing investors none of the downside protection they might expect out of hedged strategies. And there is \$150 billion now riding on them to work.

Liquid Alternative Assets



Source: Morningstar

Stillwater View: Ten years ago we created one the early success stories in the liquid alternatives world, doing so inside the walls of Nuveen Investments.

Today we are looking to replicate that success in pure form through Stillwater's Trinity Equity Strategies. While still early, we are once again seeing the positive effects of our efforts against our peers.

As *Wealth Advisor* magazine points out, Jackson National Life scored the marketing deal of the decade when it signed on 75 year old Mick Jagger to promote their retirement products.

Insure Me Up! Insure Me Up and Never Stop!



Source: Rolling Stone

Stillwater View: Mick Jagger and the Rolling Stones remain the coolest band in all of rock and roll. Those that disagree can send their objections to the office of "I'm Right, You're Wrong".

Diversions

Jim Nantz one again proved that he has the best job in all of sports as he transitioned from calling the Villanova vs. Michigan national championship game on a Monday to the hallowed grounds of Augusta National on Tuesday. Joining the rest of the CBS golf broadcast team at the Masters.

Why is This Man Smiling?



Source: Golf.com

The tournament's eventual winner, Patrick Reed, brought some controversy with him as he slipped on the green jacket late Sunday.

Defending Champ Sergio Does the Honors



Source: The Telegraph

We were very grateful to have had the opportunity to be at Augusta National last week, and to take in the history and splendor of the course. Here are five things we learned from our trip to the 2018 Masters.

- 1) Take whatever preconceived thoughts you have on how good a pimento cheese sandwich can taste...and double it. That's how amazing they are. Sleeper culinary item, the perfectly measured chocolate chip cookie.
- 2) The Masters gift shop takes in over \$7 million in on-site sales during tournament week. We saw grown adults walking out with 25 hats in their bag destined for the aftermarket, and a hefty markup. Average per person sale was \$800! We went over par on this one.
- 3) When Jack Nicklaus, Gary Player and Tom Watson stroll down the hill during the Par-3 tournament on Wednesday the air turns electric and every hair on your neck will stand at attention.
- 4) Watching the defending Masters champion put five balls in the water is worse live and in person than on television. To my gallery mates, I think Sergio gets the idea that "this is just like *Tin Cup*" without you having to say it aloud.

- 5) The dogleg corner on hole number 13, “Azalea”, is a perfect place to spend a quiet afternoon in early April with a bunch friends, both new and old.

“Azalea”



Source: PGA Tour

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