

Stillwater Capital - This Week in the Markets



The lazy days of summer are upon us, even though the start of school is only 17 short days away. What ever happened to the traditional post Labor Day open we all enjoyed? Stillwater will continue to distribute our Friday edition of “*This Week in the Markets*” the rest of the month. And if the past is any measure or predictor of the future, Wall Street is about to once again get very quiet as August rolls on and traders, banker, and brokers hit the command for “out of office”. As a reminder, if you prefer the classic version of “This Week” over the web based, simply e-mail us back with “classic” and we will make the change.

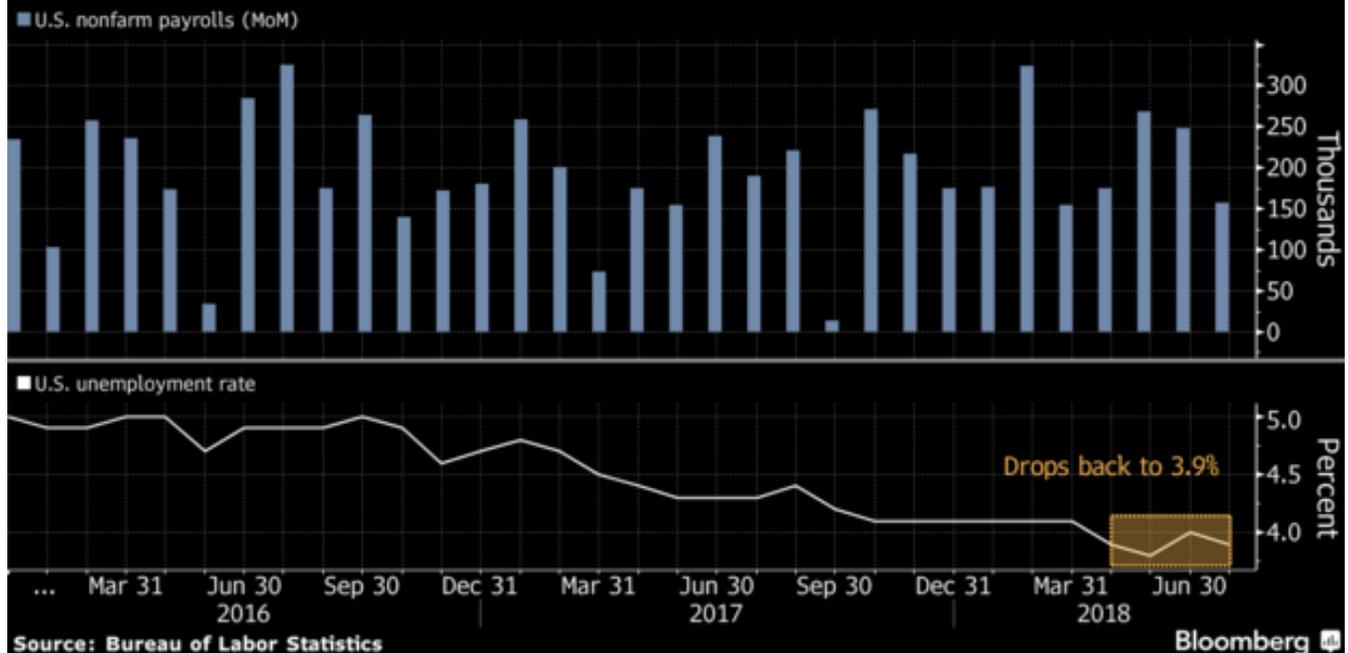
In a move contrary to what the other financial news and commentary sources are bringing you on a weekly and daily basis, we have decided to take a much needed hiatus from covering the FAANGs, David Einhorn, and Tesla. Each for its own special reason which we’ve described below. Ultimately, you can find most of the news and analysis on those subjects anywhere you like, we are simply striving to bring you something more unique that you can’t find straight off the rack. Read on....

The Top- Down

The July employment report came up short when 157,000 jobs were created last month against an expectation of 190,000. The market appears to be shrugging the news off as the direction remains positive for the economy and unemployment remains below 4.0%. *Bloomberg* reports where the jobs are, and where they are not.

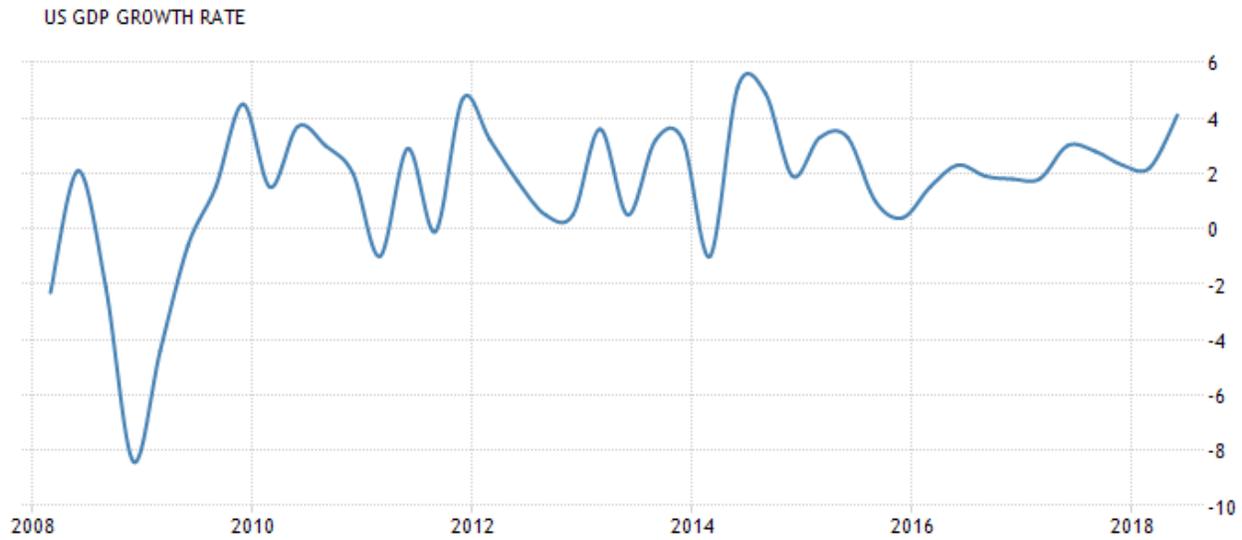
Steady as She Goes

U.S. payrolls climbed 157,000 in July as jobless rate fell back below 4 percent



The Fed met this week and signaled no change in policy, with a rate hike expected in September. The only real change was the upgrading of the economy on an increasing bias that we are strong, and only getting stronger. The well-respected Mohamed El-Erian agrees, and shared his opinion that the U.S. is the only one who has exited the “new normal” and gained enough velocity under our wings to call it a successful takeoff, giving the Fed clearance to bring on higher rates. That’s clearance, not to be confused with Clarence.

U.S. GDP Breaking Higher



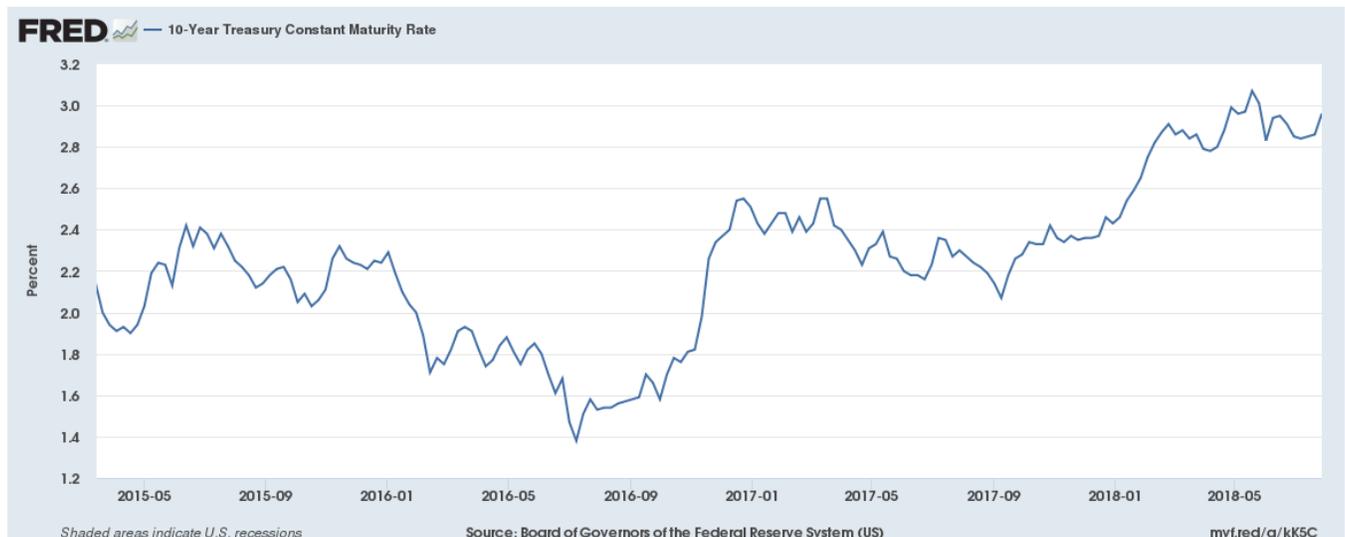
SOURCE: TRADINGECONOMICS.COM | U.S. BUREAU OF ECONOMIC ANALYSIS

Source: Trading Economics.

The Stillwater View: The Federal Reserve is quickly becoming an island of reason among heightened trade rhetoric and mixed messages on earnings. Which Martha Stewart would say, “is a good thing”.

All that strong growth doesn't come for free as rates on the 10-year Treasury are back at the 3.00% threshold. A place that has caused the equity markets trouble in the past. Perhaps it's now conditioned to react otherwise.

10-Year Treasury Yields



Shaded areas indicate U.S. recessions

Source: Board of Governors of the Federal Reserve System (US)

myt.red/g/kK5C

This week we had another ratcheting up of the Great Tariff War of 2018. President Trump signaled that he was willing to slap 25% on \$200 billion of the \$450 billion promised on China imports. China retaliated this morning and set tariffs on \$60 billion of U.S. goods. Trump also pulled out the trade bazooka on Turkey, threatening tariffs on goods sent to the U.S. in retaliation for the continued detention of an American evangelical pastor. In response to the tariffs and the 25% fall in the lira, the manager of Scandinavia's biggest bank is allocating \$500 million to bet on the short side of the Mediterranean country.

Marching in the Streets



Source: The Telegraph

Stillwater View: The bazooka analogy is not to be taken lightly. Back when Ben Bernanke was Fed Chair, he talked about being handed a monetary bazooka, and that if he didn't use it, then it couldn't be considered a bazooka after all. Fast forward to today, and Trump has more than adopted the same rhetoric by setting policy based on the 25% move higher in the DJIA since his election. Which in his mind has created a policy bazooka that he can pull the trigger on.

Trump's First Year Performance

Election Winner	One year following Election	DJIA Close	Performance
Calvin Coolidge (R)	11/4/1925	158.05	52.13
Franklin D. Roosevelt (D)	11/8/1933	95.54	47.94
Franklin D. Roosevelt (D)*	11/7/1945	192.04	29.83
Donald J. Trump (R)	11/8/2017	23557.23	28.50
William Clinton (D)	11/5/1997	7692.57	26.50
Theodore Roosevelt (R)	11/8/1905	82.17	24.11
George H. W. Bush (R)	11/8/1989	2623.36	23.31
John F. Kennedy (D)	11/8/1961	723.74	21.10
William Taft (R)	11/3/1909	100.23	20.90
Barack Obama (D)	11/6/2013	15746.88	18.88
William McKinley (R)	11/3/1897	47.67	16.47
Ronald Reagan (R)	11/6/1985	1403.44	12.80
William Clinton (D)	11/3/1993	3661.87	12.59
Lyndon B. Johnson (D)	11/3/1965	961.13	9.78
William McKinley (R)**	11/6/1901	64.56	6.06
George W. Bush (R)	11/2/2005	10472.73	4.35
Dwight D. Eisenhower (R)	11/4/1953	276.82	2.44
Barack Obama (D)	11/4/2009	9802.14	1.84
Harry S. Truman (D)	11/2/1949	192.96	1.69
Richard Nixon (R)	11/7/1973	920.08	-6.57
Ronald Reagan (R)	11/4/1981	866.82	-7.51
Richard Nixon (R)	11/5/1969	854.08	-9.74
Herbert Hoover (R)	11/6/1929	232.13	-9.88
Franklin D. Roosevelt (D)	11/5/1941	119.85	-11.36
Dwight D. Eisenhower (R)	11/6/1957	435.82	-12.02
George W. Bush (R)	11/7/2001	9554.37	-12.76
Woodrow Wilson (D)	11/5/1913	78.11	-13.49
Warren G. Harding (R)	11/2/1921	73.52	-13.99
Jimmy Carter (D)	11/2/1977	800.85	-17.10
Franklin D. Roosevelt (D)	11/3/1937	130.14	-26.34
Woodrow Wilson (D)	11/7/1917	71.54	-33.27

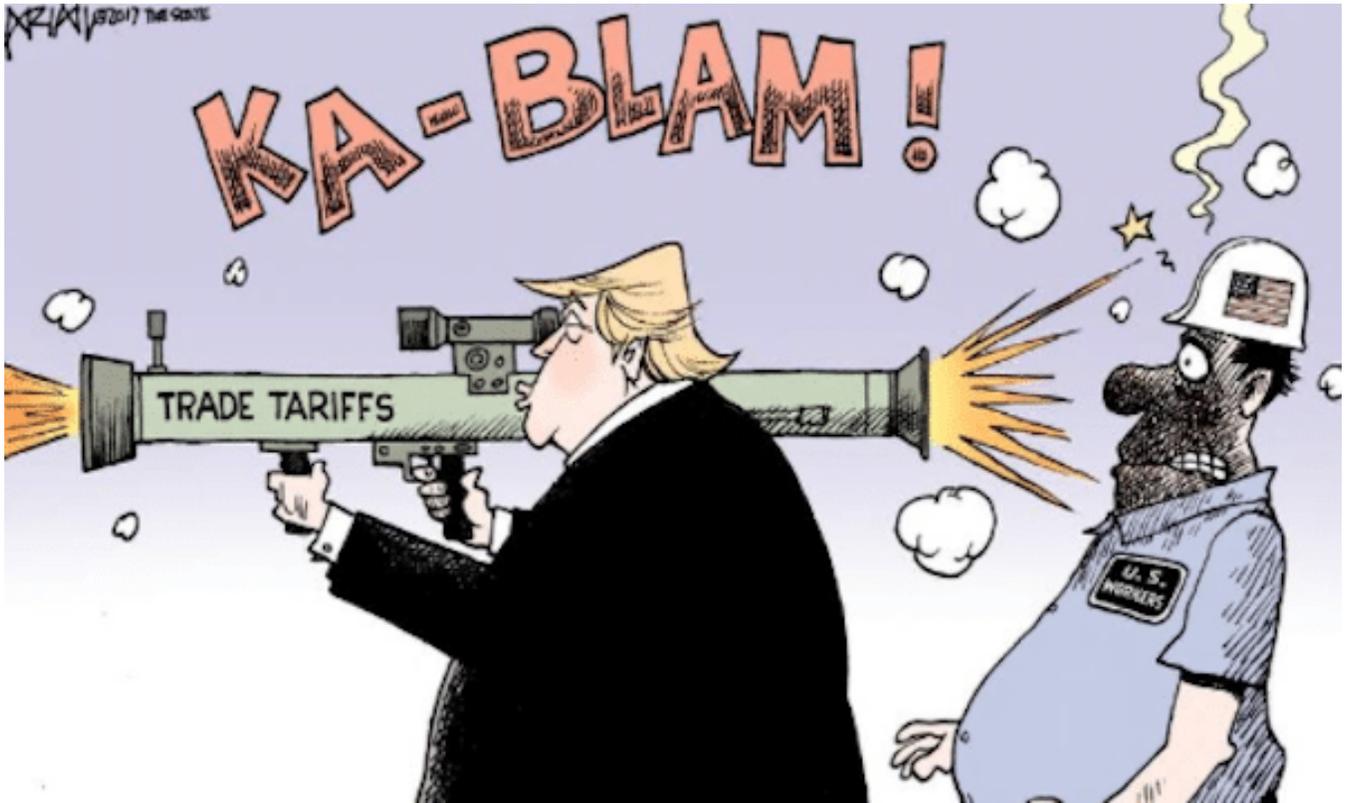
*FDR passed away in May 1945 and was succeeded by Vice President Harry S. Truman

**William McKinley passed away in September 1901 and was succeeded by Vice President Theodore Roosevelt

And just like the aforementioned bazooka metaphor, if you make a good call and don't promote it, have you really made a good call at all? A month and a half ago we speculated that Trump was going about making policy based on the gift horse the market handed him since his election. Last

week he confirmed that view, and said that “he is playing with house money”. For a brief moment we were able to do what most couldn’t, and that is get inside the head of one very provocative leader of the free world.

Fire, Aim, Ready!!!



Source: MR Online

While there is no hiding the fact that last week’s GDP print was a good one, once president Trump completed his victory lap, analysts quickly pointed out that a full 1% of the 4.1% growth was entirely export related. The bulk of which was soybeans looking to “get the hell out of Dodge” before tariffs hit.

The Stillwater View: Presidents inherit economies and can only take so much credit for some of the trajectory bestowed upon them. Here is our “fair and balanced” view of the job that the last four commanders in chiefs performed.

- **Bill Clinton** didn’t invent the internet, but he certainly benefited from a bubble in technology stocks. This helped juice tax revenue and turned the budget deficit into a surplus. His Treasury Secretary, Bob Rubin, was beyond capable and helped to keep the momentum on the rails.

- **George Bush** inherited an economy that in 2007 then Treasury Secretary Hank Paulson called “the strongest he had ever seen.” Eighteen months later we would be struggling through the worst recession since 1939. The cause? The unwind of the great debt super cycle.. Someone was going to be president when it happened, and Dub-Ya was the unlucky soul.
- **Barack Obama** was elected in the fall of 2008 when by most measures, any Democrat was going to win given how toxic the Republican brand was in the fall of that year. He also ran a masterful campaign of “Hope”. And even though his policies weren’t particularly pro-business and generally focused on social issues, he didn’t shoot himself in the foot and managed to let the recovery ride. The quote “Bin Laden is dead, and General Motors is alive” pretty much sums it up.

Why are these men smiling?



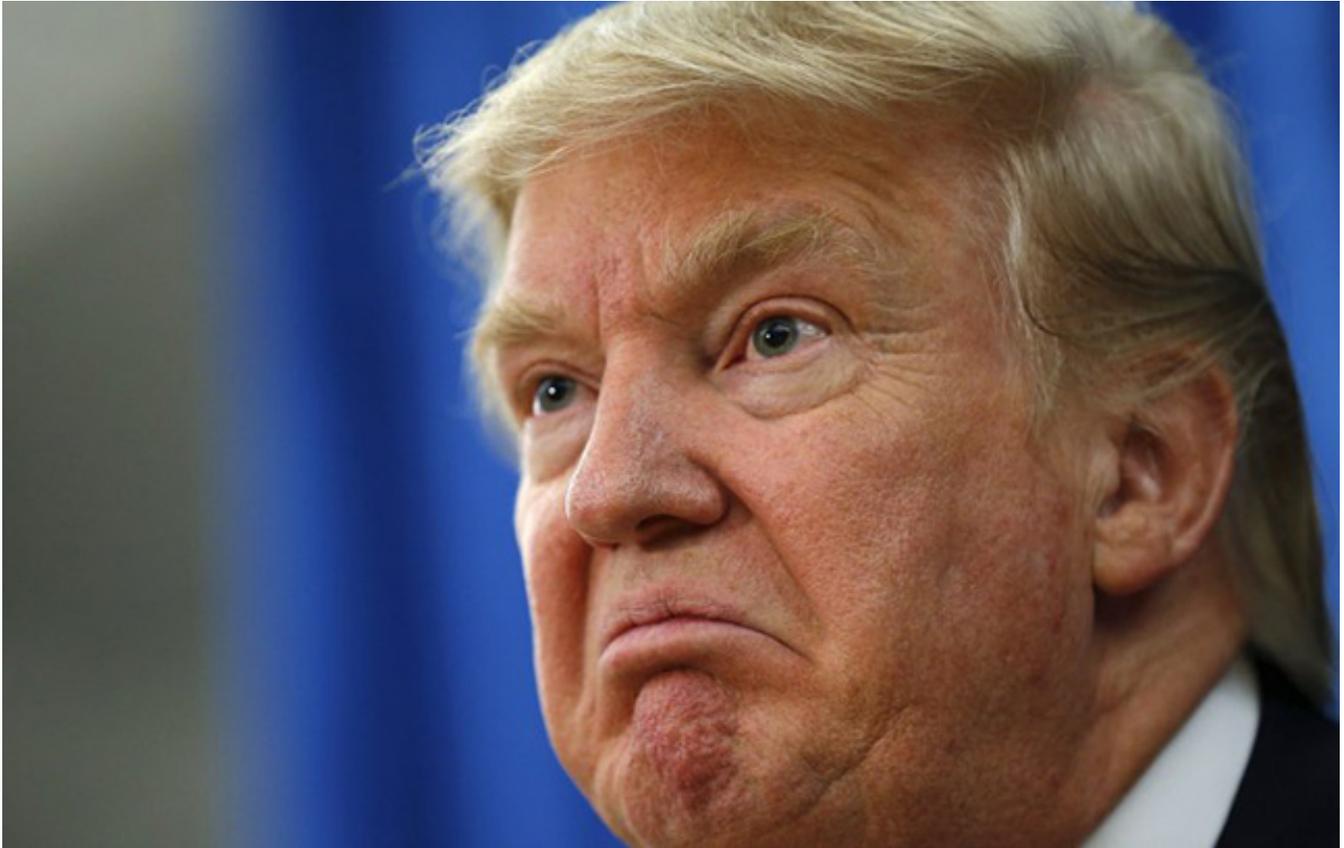
Source: Mashable

- **The Donald** most certainly was given a good hand when it comes to the economy and has done nothing to mess it up. He helped juice growth with massive tax cuts and has been hitting back hard on countries where non-competitive policies have hurt the U.S. Both of which run risks that could derail things by drawing inflation in or putting a hurt on exports.

The Stillwater View: Even money that we enter a recession before the next election. And as history will likely repeat itself, Trump will be blamed for little or no fault of his own. When it happens get

ready for that Tweet storm that follows. It will make Captain Queege's search for the strawberries aboard the Caine look like a mild case of the nerves.

Why is this man not?



Source: Cold Front

So what exactly does “get the hell of Dodge” mean? It’s a phrase that was made for the T.V. show “Gunsmoke”. When Marshall Dillon decided it was time for the bad guys to hit the road he told them to “get the hell out of Dodge”. Which referred to the western edge town of Dodge City, Kansas.

Gunfight in Dodge City, Kansas



Source: Dodge City Days

The Bottom-Up

The high stakes Tesla drama continued this week when the company reported their biggest loss ever. Cash burn came in at \$480 million, less than the Street expected. On the quarterly call with analysts, CEO Elon Musk, reiterated that company would show a profit by year end. Short sellers, Stillwater included, lost a combined \$1.7 billion on the 14% spike in the shares on Thursday, putting the average position in the red for 2018. Musk also apologized to the analyst community for loose and disparaging comments made earlier this year.

Tesla vs. S&P 500



The Stillwater View: For the overabundance of news, noise, and nonsense in 2018, the shares of Tesla have done nothing but trade in a \$250 to \$350 range. Basically making it a push for those on either side. As of this morning, Stillwater is exactly break even, having sat through more drama than we would like.

Some of the smartest people we know think this is like the early days of Amazon, and the stock is easily a two bagger from her. If it goes there, it's going without us. On the flip side, \$250 is quite possible again if the cash burn picks back up. If it does so, we might participate on the short side.

Regardless of either outcome, the time suck this one position has had is going have us on the sidelines for a while. Trench warfare around a battle ground stock like this is not our idea of a good time.

Battling it Out



Source: History.com

High end speaker manufacturer, and Santa Barbara success story, Sonos went public this week under the symbol SONO. Shares priced at \$15, below the expected range of \$17-\$19. The IPO valued the company at \$1.5 billion. The stock made up for the early discount, rising 33% on the first day of trading and closing out near \$20. CEO Patrick Spence calls the firm “the most unconventional hardware company” in the market. The Nasdaq opening bell was re-designed by Sonos for the open on yesterday.



Source: UCSB Grad Post

The Stillwater View: To the local employees of Sonos, congratulations. Now go out and enjoy a noontime margarita today and the Fiesta Historical Parade. You've certainly earned it!

Fiesta on La Playa

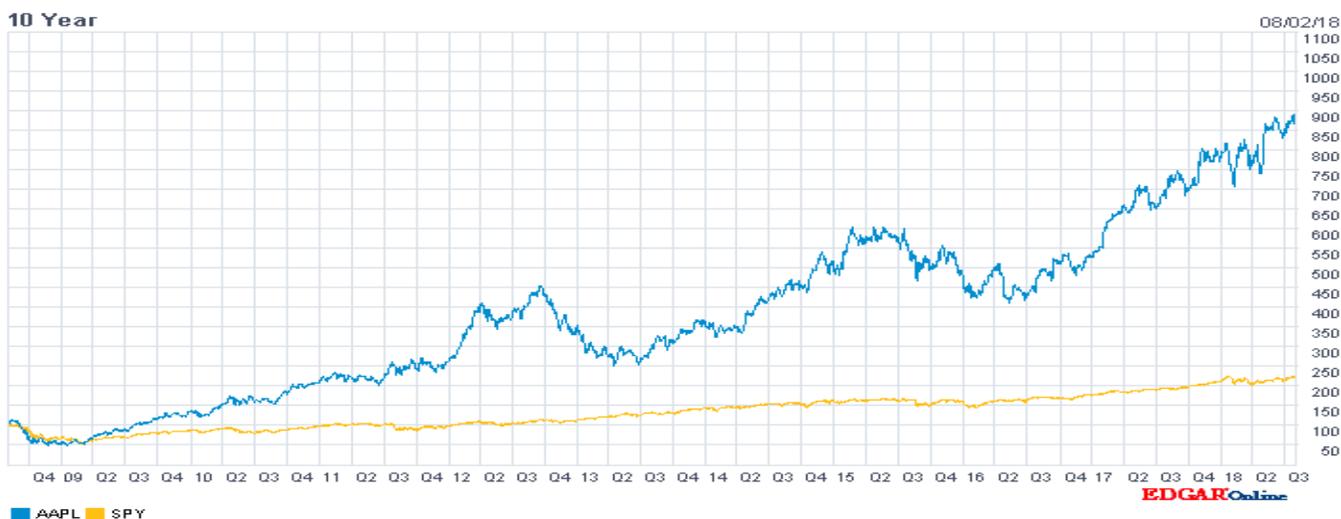


Source: Noozhawk.com

This week we got the last of earnings from the FAANGs with Apple saving any particular day that needed it. The company continued on its momentum fueled path when they reported third quarter results that included a \$53 billion top line, a 17% increase from last year. That's a pretty incredible number for a company that size.

Needless to say, the Wall Street analyst community was beyond impressed by the numbers and said so much in their fawning reviews. Warren Buffett didn't mind. He poked another \$2 billion for Berkshire Hathaway as his steadfast approach to investing over trading kept him in the stock. The stock market awarded the company the first trillion dollar market capitalization in history. *Bloomberg* provides us an interactive tool to display what else has that kind of value. A \$1,000 investment in Apple ten years ago would be worth \$9,225 today.

A Decade of Apple Outperformance



The Stillwater View: In an effort to stay with the vision of “This Week in the Markets” being relevant and original, after this round we are going to take a hiatus from talking about the FAANGs. It’s been well documented that these stocks have led the market, but there is a whole other world out there of companies to talk about and dissect.

So as our last salvo before our sabbatical begins, we will provide you with one last look at Stillwater’s thoughts on the subject. After this reporting period it has become apparent that some of the FAANG’s still have momentum, while others have entered a “show me” state. For ease of use, and taking valuation out of the equation, here is how they appear to us in order of “need, probably need, might need, could need, and thought I needed” status.

Apple – *Need* the connected Apple ecosystem and are willing to pay up for it.

Amazon – Will *Probably Need* Amazon Prime and Amazon Web Services.

Google – Think I *Might Need*, but am not 100% sure how they make money off everything they do.

Netflix – *Could Need* as I like the service, but wonder what the business model looks like when it matures.

Facebook – *Though I Needed* it at one point, though I am no longer certain anymore. Now I like my user data to remain my own and not farmed out to the world.

And there you have it loyal readers, an incredibly easy back of the envelope look at the FAANG complex. It also happens to be the narrative that has emerged this quarter and one that Wall Street has also embraced.

Bloomberg reports that it’s getting more expensive to protect Facebook’s Mark Zuckerberg. The costs have now escalated to a \$10 million line item on company’s income statement. Apparently, it isn’t cheap to keep a 16 person security detail on staff. By comparison, Lloyd Blankfein who heads Wall Street’s most enviable investment bank, Goldman Sachs, gets a paltry \$65,000 for a driver and

security. Lowest on the self-protection totem pole is AT&T's Randall Stephens, who was allocated \$5,739 to make his home secure.

Zuckerberg and His Security Detail



Source: Daily Mail

In private company news, Brookstone filed for Chapter 11 bankruptcy protection. The retailer blamed “reduced mall traffic” for its decline. The company will close the remaining 101 stores in an orderly liquidation.



Source: The Four Father

The Stillwater View: Reduced mall traffic might have been the final nail in the coffin, but ultimately Brookstone was the bricks and mortar version of the now defunct SkyMall. We are amazed that the company lasted as long as it did.

Up & Down Wall Street

Fidelity has officially won the “race to zero” and is now offering two index funds for free. That’s right, you can now own the total market index for nothing, zilch, de nada, bagel, goose egg. Consider this a loss leader to bring customers in to open accounts and use the firms more lucrative financial planning services. The news put BlackRock, the largest index ETF provider, on its heels. Causing a 5% drop in the shares of BLK after the announcement.



Fidelity

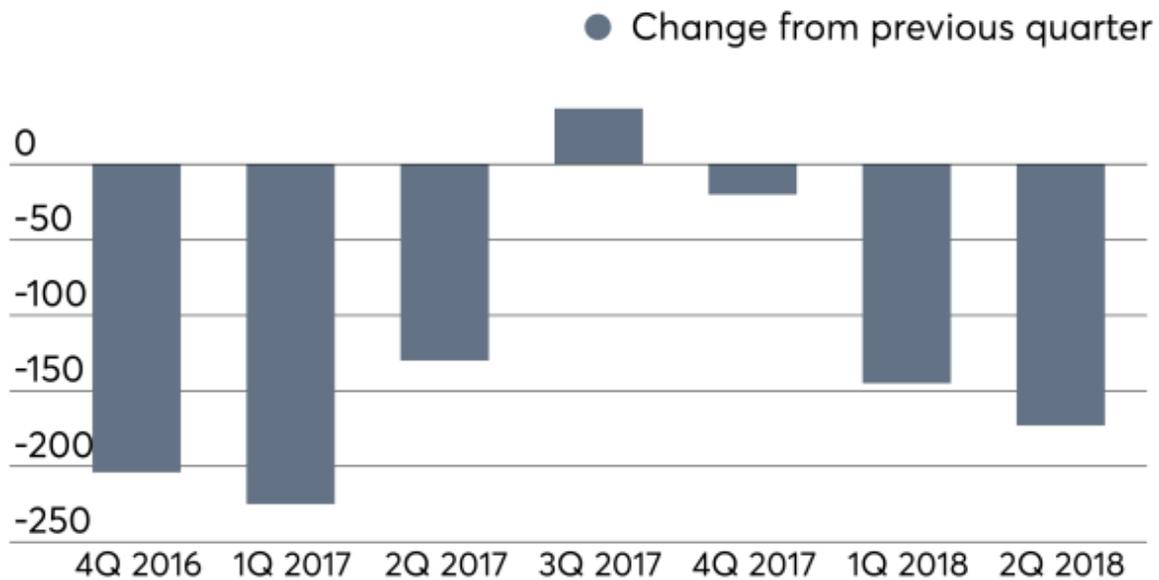
INVESTMENTS

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In other brokerage news, Wells Fargo lost a \$650 million team in Florida this week when Michael Landsberg and Lew Bennett left to form, you guessed it, Landsberg Bennett Private Wealth . Continuing a broader move in the industry and one that has had an outsized impact on Wells Fargo Advisors.

Advisor attrition persists at Wells Fargo

The wirehouse has lost 173 brokers in the last quarter, and 301 over the last year.



Source: Company data

For the last time, we would like to highlight that David Einhorn is having a really, really, bad year, down more than 18% with the S&P 500 up 4%. Wagers against large cap technology in favor of value stocks has been a pair that hasn't worked. In his letter to investors Einhorn acknowledged that these results "were far worse than we could have expected."

Tough Pair: Amazon vs. General Motors



The Stillwater View: Assuming Greenlight offers the same highwater mark for their client's protection, his fund will need to post a 25% gain to get back to clipping performance fees again. So for now he is managing for a relatively small 1%-2% of assets under management. Certainly not where you want to be as a hedge fund manager given how tough this market has become.

Long GM short Amazon, if indeed that was how he was positioned, is no way to get to hedge fund heaven. We wish Einhorn the best of luck as he puts the pieces back together. On that note, we are officially done talking about David and Greenlight for a while.

The Wealth Advisor ran a story earlier this week detailing the drunken exploits of "Real Housewives of New York City" star Luann de Lesseps. In it they chronicled the meltdown she experienced on December 23rd of last year during an alcohol induced, police threatening tirade in Palm Beach. The Wall Street tie in relates to the lawsuit filed by her ex-husband and grown children that alleges a court ordered trust fund to be established for their benefit never materialized.

Mug Shots and Driver's License Photos, Ouch!



Source: Page Six

The Stillwater View: A reminder to all the financial advisors who read “This Week in the Markets”, have your clients affairs in order before they decide to go off the rails.

Diversions

Keeping with our equine theme this week, Stillwater would like to draw your interest to one of the most colorful, dangerous, and downright insane horse races in the world. In “Palio di Siena: A Survivors Tale”, *New York Times* writer Dwight Garner provides a telling of the story of his experience at last year’s running in Siena, Italy. We can’t even begin to do justice to the description of what takes place. Read it and enjoy!

Palio di Sienna



Source: The New York Times

The final gathering of Alcatraz alumni, guards and prisoners alike, will take place on August 12th. A special sale of last minute tickets happens on Friday the 10th at 10:00 am. Commonly referred to as “The Rock”, it held some of the most notorious prisoners of its day. Included in that group are George “Machine Gun” Kelly, “The Birdman”, and of course Al Capone. It was rumored that the inmates could smell the sourdough bread baking in North Beach a few miles across the Bay.

“The Rock”



Source: Alcatraz Cruises

The 49'er faithful said goodbye to one of their favorite sons on Wednesday, when legends of the past gathered to honor Dwight Clark who passed away in June at the age of 61 from ALS. Clark was a 10th round pick out of Clemson in 1979. Drafted the same year as Joe Montana, the two would start their journey to football immortality as roommates. Four years later they would be forever linked by one play that will always be known as "The Catch". To be clear Cowboy fans, Joe wasn't throwing the ball away. Bill Walsh drew it up, and Clark and Montana pulled it off.

"The Catch"



Source: SI.com

The Stillwater View: No single play did more for a franchise than “The Catch” did for the Niners, launching them into a decade of dominance.

Team owner Eddie DeBartolo had some special things to say about Clark and asked everyone to “not cry because it’s over, but to smile because it happened”. Montana gave a poignant remembrance of his old roommate. Clark’s ashes were buried at DeBartolo’s Whitefish Montana ranch under the goalpost where he achieve football immortality.

Dwight Clark’s Final Resting Place



Source: Sports Gossip

The Stillwater View: Dwight Clark was a special man amongst a special group of men. Taken too soon, those of us who grew up living the childhood dream of having the Forty Niners as “our team” will never forget it. Godspeed number 87.

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