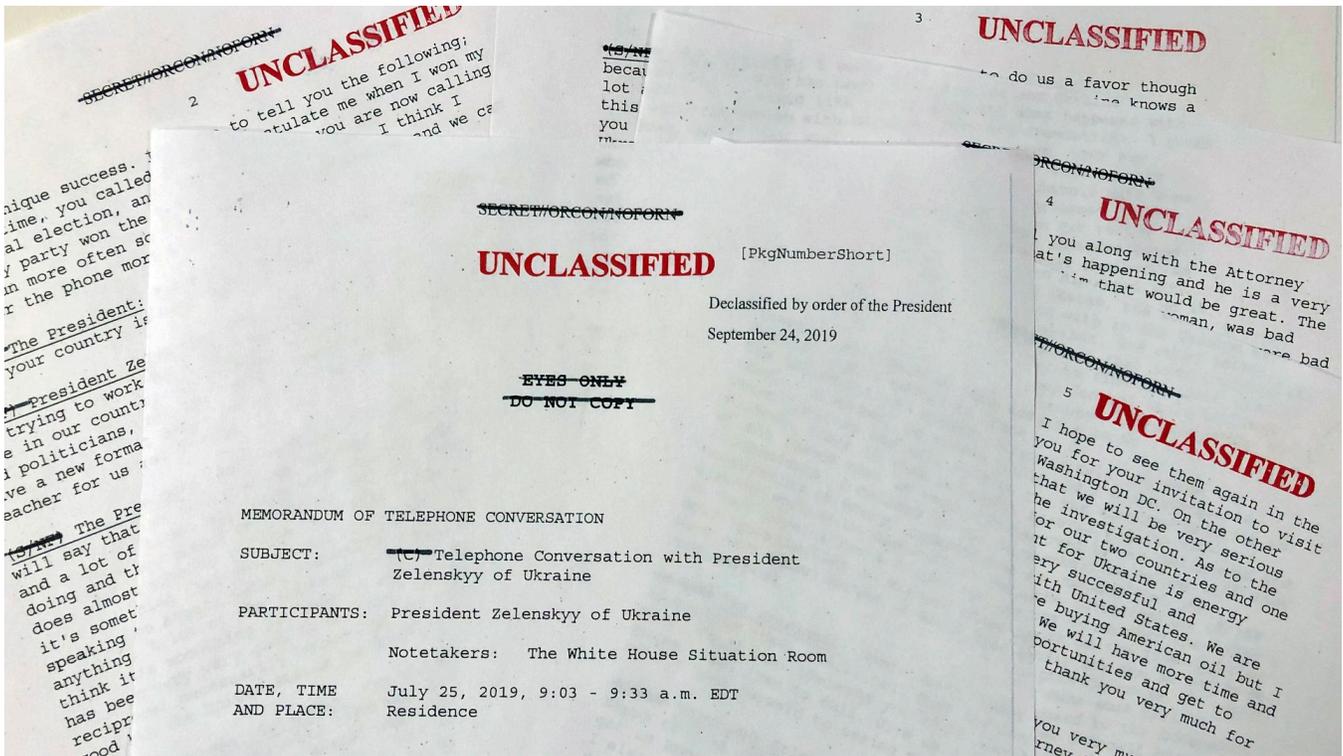


Do We Have Something Burger?

As much as we would hope, dream, and pray that the market gets back to focusing on economic and corporate fundamentals, right now that isn't the case. It's a two-channel broadcast, one is KFED featuring Jay Powell. The other one KDON, and is spinning non-stop hits featuring DJ-DTrump and his very own brand of crazy. Everything else is just background noise. This week on the turntables was a boat load of redacted memos that might this time actually be a something burger.



Source: Axios

The Economy

The only news of note from the hard data side was the Case-Shiller Home Price Index, which showed another slight bump higher from last month. The bigger picture shows the solid surge since the Fed pivoted in January, and interest rates took a nice tumble.

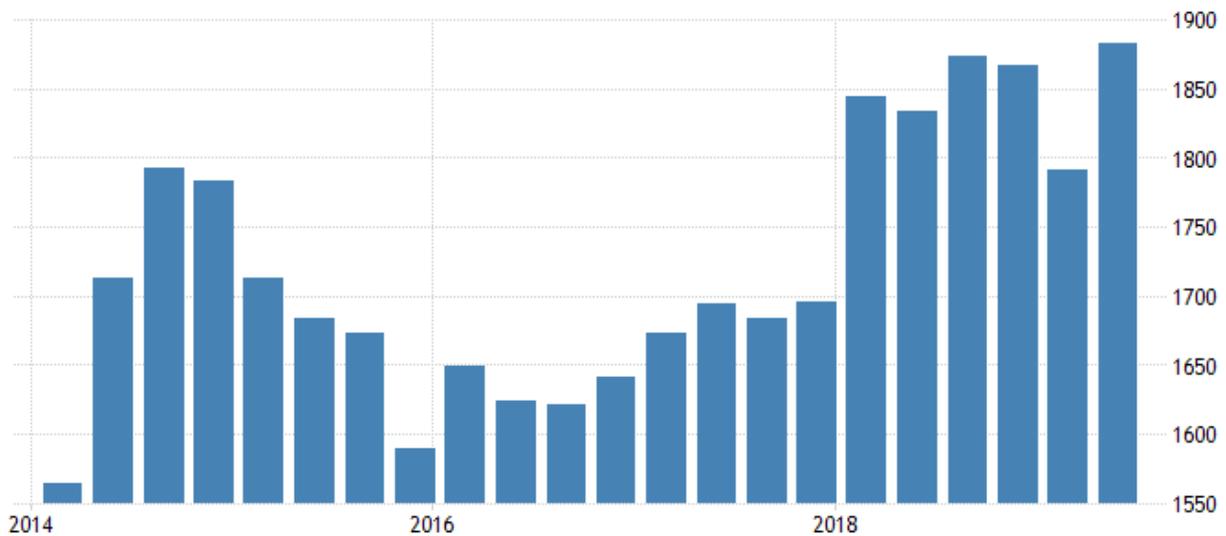
Case-Schiller Home Prices



SOURCE: TRADINGECONOMICS.COM | STANDARD & POOR'S

The other chart we thought we would pass along is far from market moving but shows how corporate profits have fared over the past five years. Two important observations, the first is that make no mistake about it, things were not looking good for the economy going into the end of 2016. The second being that since the tax cut inspired boost beginning in 2018, profits haven't done much but level off, albeit at high levels. Many critics of the cuts said the sugar high would wear off and that they would draw in the end of business cycle, neither have happened yet. Operative word being 'yet'.

Corporate Profits



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

Markets

In news that should scare you, intraday trading is now being driven not only by algorithms, but artificial intelligence driven algorithms. Earlier this summer, Bloomberg ran a great piece explaining how AI wasn't making investors smarter. As the arena for these funds fills up outperformance has gone away, as is often the case. Bottom line, while AI holds promise across, beware of snake oil salesmen dressed in a nice suite telling you that it's the next best thing.



A man with his finger on the pulse like no other J.P Morgan's Marko Kolanovic, warned that news headlines, fake or otherwise, were now running the show. He also nailed the market upheaval last month saying there was a 'once in a decade opportunity' in certain sectors as value and growth factors reached a near term nadir. Turns out they did, and what occurred next was actually a 'once a decade opportunity'. He sees the same trend continuing, with new highs for the market. In an appearance on CNBC's Fast Money earlier this month he provided a roadmap given all the underlying cross currents.



On Wednesday stocks rebounded when the aforementioned president said that a trade deal with China may come ‘sooner than you think’. A move our friend and fellow short-seller, Jim Chanos, called a gullible response to the president’s hinting of a resolution. KKM Financial CEO Jeff Kilburg commented that without a doubt the intraday swings are the result of Trump trying to boost the market, and we agree.

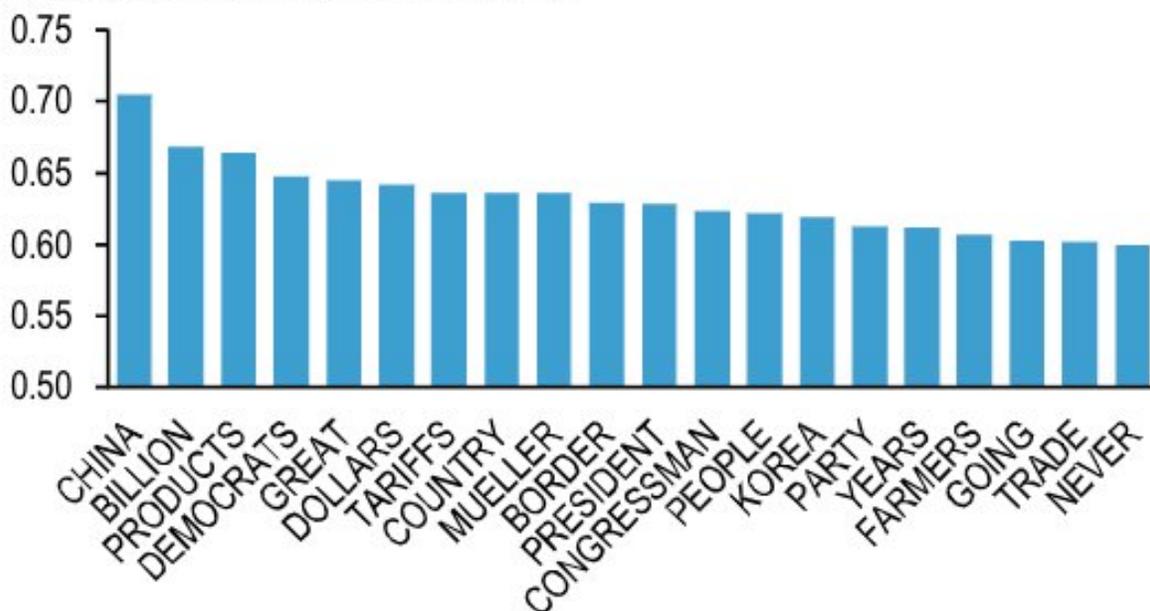


Meanwhile, the Marketeer in Chief isn't afraid to inform the world that the market will crash if he is impeached. So that everyone is clear, President Trump is well aware that there are algorithms out there driven by artificial intelligence that will bid up stock futures if he says the right combination of 'trade, China, deal, soon,'.

If you are glutton for this kind of thing, Bloomberg provides an interactive chart that shows the actual tweets, and how the market reacted. That is a lot of power in the hands of a man who judges his success by one of the things he has a great deal of control over. J.P. Morgan created the Volfe Index so that you all could play along at home.

Exhibit 5: Ranking words by how frequently they appear in market-moving tweets versus the account's broader corpus reveals, unsurprisingly, trade (and monetary policy) as key topics...

Top ranked words by ratio of the frequency of occurrence between market-moving and non-market moving tweets; unitless



The Bubble Basket

Every so often a 'fat pitch' comes across the plate, and if you are in the business of making money for clients regardless of market condition like we are, you had best be ready to swing the bat. In our opinion, that fat pitch has arrived in the form of a bubble in the public market value of recently privately held companies. The so-called unicorn hunt we are about to go on will include the following recently public companies' stock. Drumroll please...

- 1) Chewy
- 2) Peloton
- 3) Beyond Meat
- 4) Slack
- 5) Uber/Lyft
- 6) Pinterest
- 7) DocuSign
- 8) 9F
- 9) Dynatrace
- 10) SmileDirectClub
- 11) Revolve Group
- 12) The Real Real

What they share in common is that they were born into the public markets in the last year, are challenging to look at from a valuation perspective, have the shiny new IPO 'can do no wrong' glow around them, and we believe won't do well as we move into 2020 and the 'risk-off' trade returns as we think it will. Bloomberg highlights for us the risk that so many unprofitable companies have made their way into the public markets recently, the most since 1999.

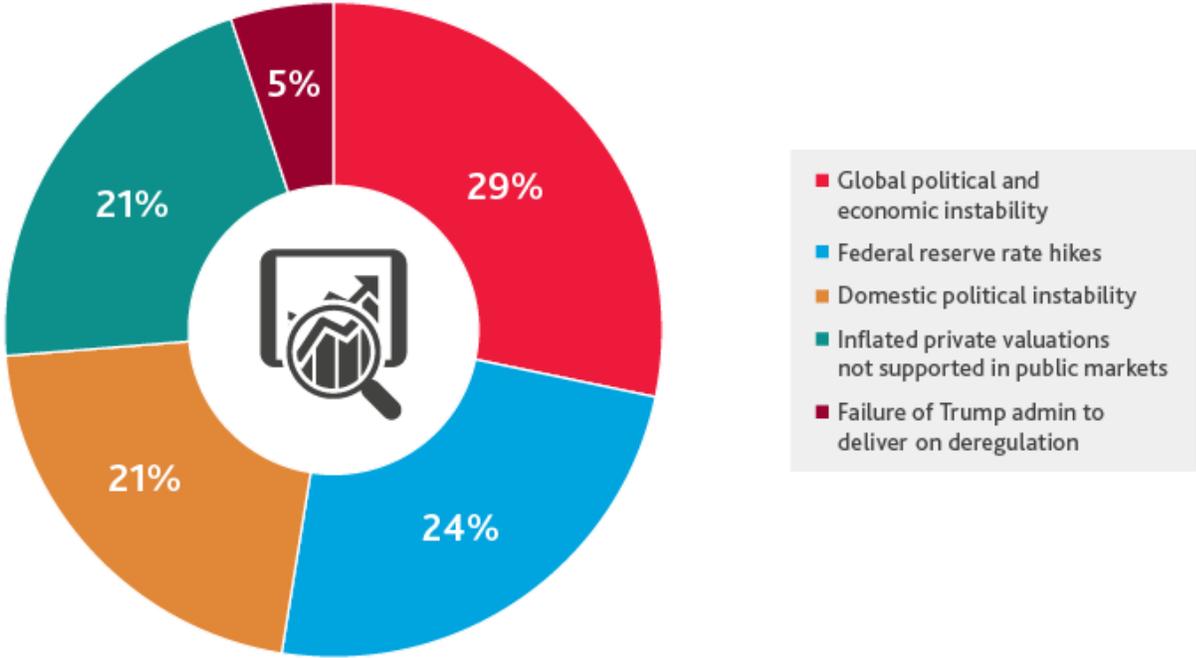
Unicorn Season



The plan to make money off the trade goes like this. From here through the end of 2020 there will be a 10% portfolio allocation on the short side to the 'bubble basket'. We've chosen our first twelve names to work with and will use our portfolio management skill at selecting the time and place to enter and exit short positions.

Our objective is a minimum contribution of 250 basis points with a higher end target of 500. While the latter is ambitious, it's very well within the realm of possibility and would put serious Alpha on the performance ledger.

GREATEST THREATS TO HEALTHY IPO MARKET IN 2019



Just for good measure, we plan on shorting the shares of Softbank as well, it too won't do all that well in an environment that begins to question private market valuations and the ability to move them through the pipeline.

Softbank



Stillwater Discloser: The ‘bubble basket’ is something we will be managing in house and is not to be considered a recommendation. Unless you have prior experience, and can handle the volatility, do not try short selling at home. That’s what we’re here for and we do a pretty good job of it.

Too Many Mutual Funds?

At the end of every quarter Barron’s and the Wall Street Journal provide a rundown of who performed the best and worst in each Morningstar mutual fund category. In a few short days we will wrap up the third quarter and the game will begin all over again. The last time we looked, we were struck by how many funds made the list with extremely small amounts of AUM. And by small we mean less than \$10 million. Those in the business know that \$25 million is the general threshold for a fund to be profitable.



Gone are the days were Fidelity Magellan was a household word, and celebrity portfolio managers abounded. Big and mighty, just like T-Rex, along came the ETF and killed them all.



We are going to take some time this week to look around the landscape and give readers a top-down and bottom-up look at some of the success stories and failures in the evolving world of mutual funds.

Diversions

Rugby World Cup

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