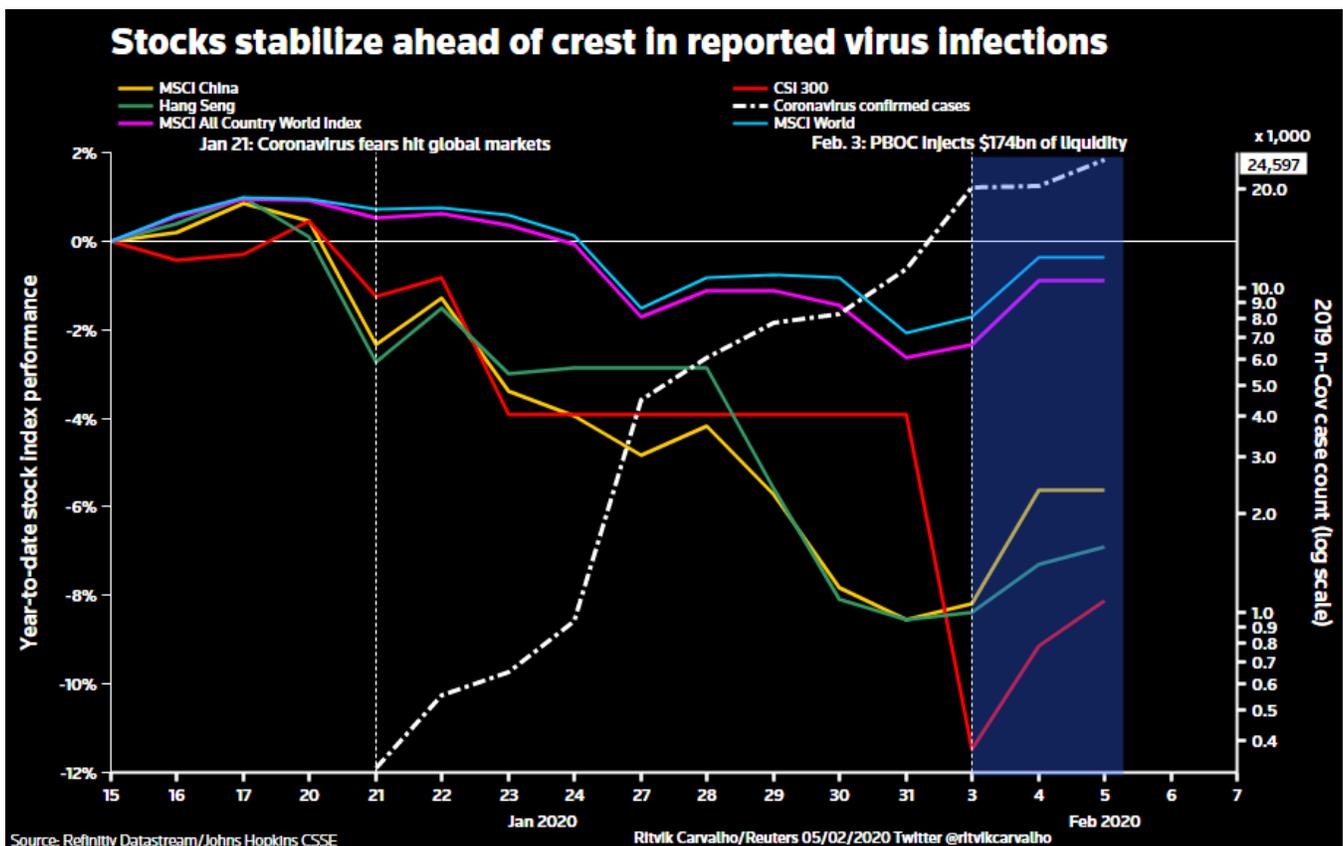


The Non-Virus...Virus

What a difference a week makes! Friday of last we had the correction in place that everyone has been looking for. By the end of the next we were at new highs in a market that was putting on gains to the tune of a percentage a day. While the Coronavirus is real, the impact it is showing has yet come into clear focus. While everyone on Wall Street has an opinion, we side with David Tepper and Mohamad El-Erian and the view that this changes things more than the market is pricing right now.

Game Changer?



The Economy

As Dan Rather might have said, the job market continues to be as hot as a tick on Texas bloodhound in August. In January the economy added 225,000 to the payrolls. CNBC once again shows you where the jobs are.

Strong, and Getting Stronger

January jobs one-month net change



SOURCE: Bureau of Labor Statistics



Jim Paulson, the onetime head of Wells Fargo strategy, now hangs his shingle at the Leuthold Group and has never met a television camera he didn't like. This week he made an appearance on CNBC to talk about markets and the economy. What he said makes sense and is worth repeating here. It's really tough to argue that the economy here at home isn't firing on most, if not all cylinders. There was some tariff related risk in the manufacturing sector, but even that appears to be getting better.

Growth Back On

U.S. manufacturers grow for first time in six months

Reading above 50 indicates expansion in manufacturing activity



Source: Institute for Supply Management via FRED

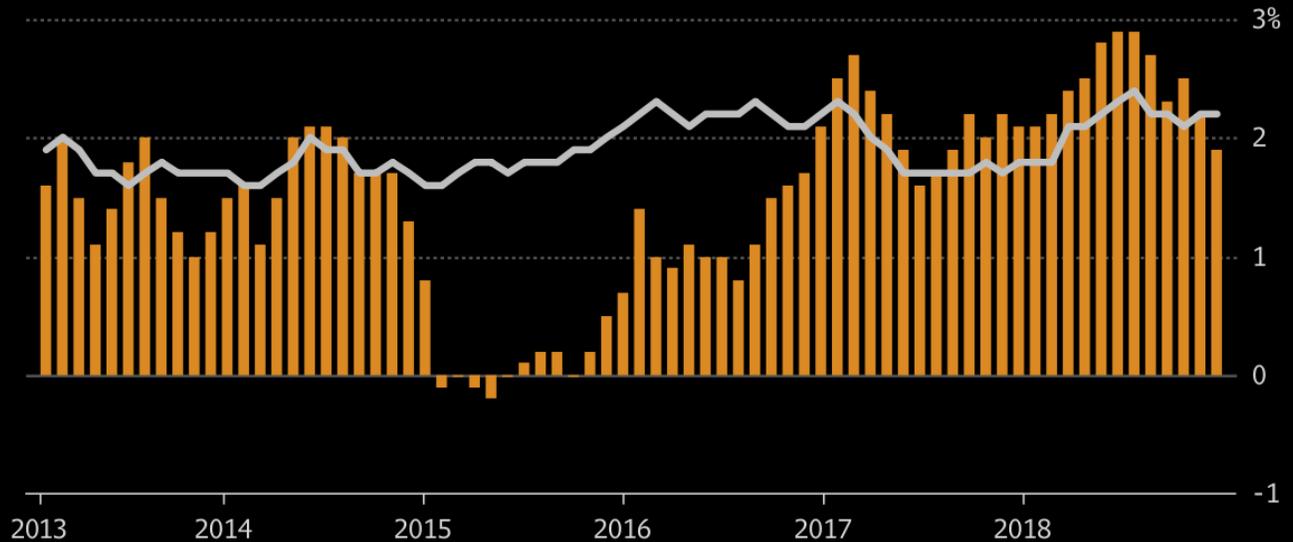
The more important thing that Paulson had to say was that the biggest risk to the markets is a heating up of inflation on the consumer and corporate side. The Fed has been very clear that absent a sustainable run above 2% in the core reading, not only are they on hold, but their bias will be towards lower rates if an outlier like the Coronavirus impacts global growth. This, along with China's commitment to supporting its markets has the late January selloff in stocks looking like a blip on the radar. Citadel founder Ken Griffith made similar remarks to the Economic Club of New York where he said the markets are 'utterly and completely unprepared' for inflation.

The Boogeyman Don't Boogie

Inflation in Focus

Headline U.S. consumer prices dipped in December, while core measure held steady

■ U.S. CPI (YoY) / Core CPI (excluding food and energy, YoY)



Source: Bureau of Labor Statistics

Bloomberg

Last thing we will say on the subject of central banks supporting markets, it's a real thing and one that makes us wonder who is driving the futures market, and therein the major indexes. As we've said before, we are not all in on the idea that the Fed and Treasury Departments are propping up asset prices directly.

As Promised...



That said, there is something going on out there that we can't make sense of as there is too little money in active managers and traditional hedge funds to be running the show like this. Is it the rise of the quants? That's one piece to consider, though even there we can't fully connect the dots. As our readership is broad and diverse, we welcome any thoughts, ideas, and observations on the subject as our intellectual curiosity is looking to be fed. There are after all a bunch of players in power that could very much use (much) high stock prices and lower bond yields. Bloomberg did a nice write up on how Trump can juice the economy from here to November.

The Trillion Dollar Question

TRUMP HAS CONFIDENCE

President voices confidence in Fed, Mnuchin



On Federal Reserve Chairman Jerome Powell:

"I think that they will get it pretty soon.
I really do."



On U.S. Treasury Secretary Steven Mnuchin:

"Very talented guy, very smart person."

Bloomberg

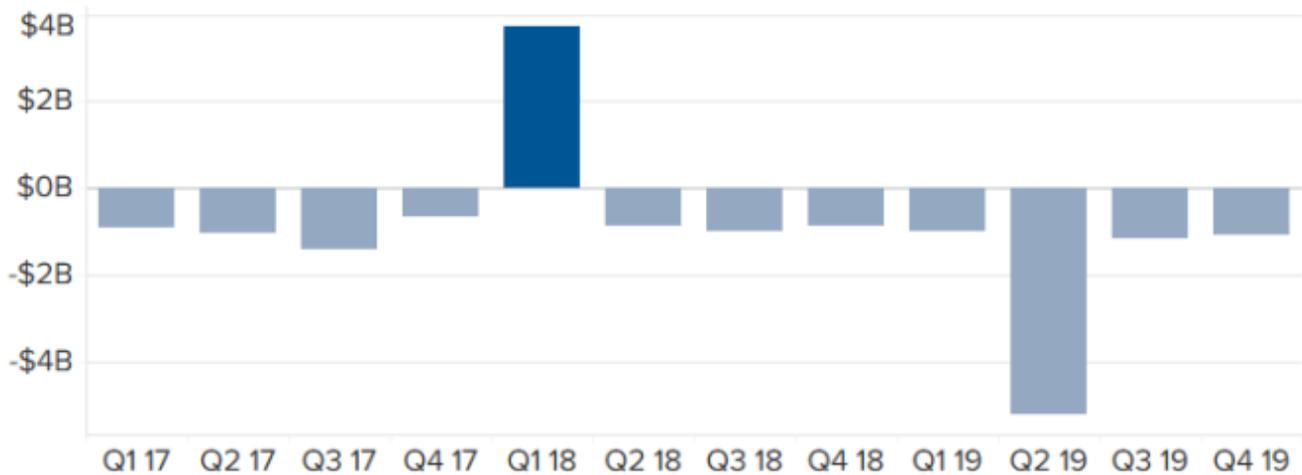
Earnings

Stillwater went two for three this week on names in our short book that reported earnings. On the plus side of the ledger were Snap Inc. and Peloton. On the minus side we took a hit when Uber reported better revenue and a path to profitability that would be sooner than Wall Street is expecting. We still think that the company isn't fully baked enough in terms of longer the longer-term outlook, and by no means has sufficient moats around its business to not experience margin compression. But for now, the bulls have it

One Out of Twelve?

Uber net income

Q4 2019: -\$1.1B



SOURCE: Company filings



In terms of Snap and Peloton, the former is part of longer-term view that we have reached peak social media and user growth if not having already plateaued is in the process of doing so. That said, we respect the fact that the company has seen a reacceleration in the last three quarters. Bloomberg provided a review of the quarter from their perspective. Fortunately for us, we think the Street is starting to pay more attention to actual earnings, and not simply user growth. There is also the fact that the company has one of the worst corporate governance structures we have ever come across.

The Vote Holders



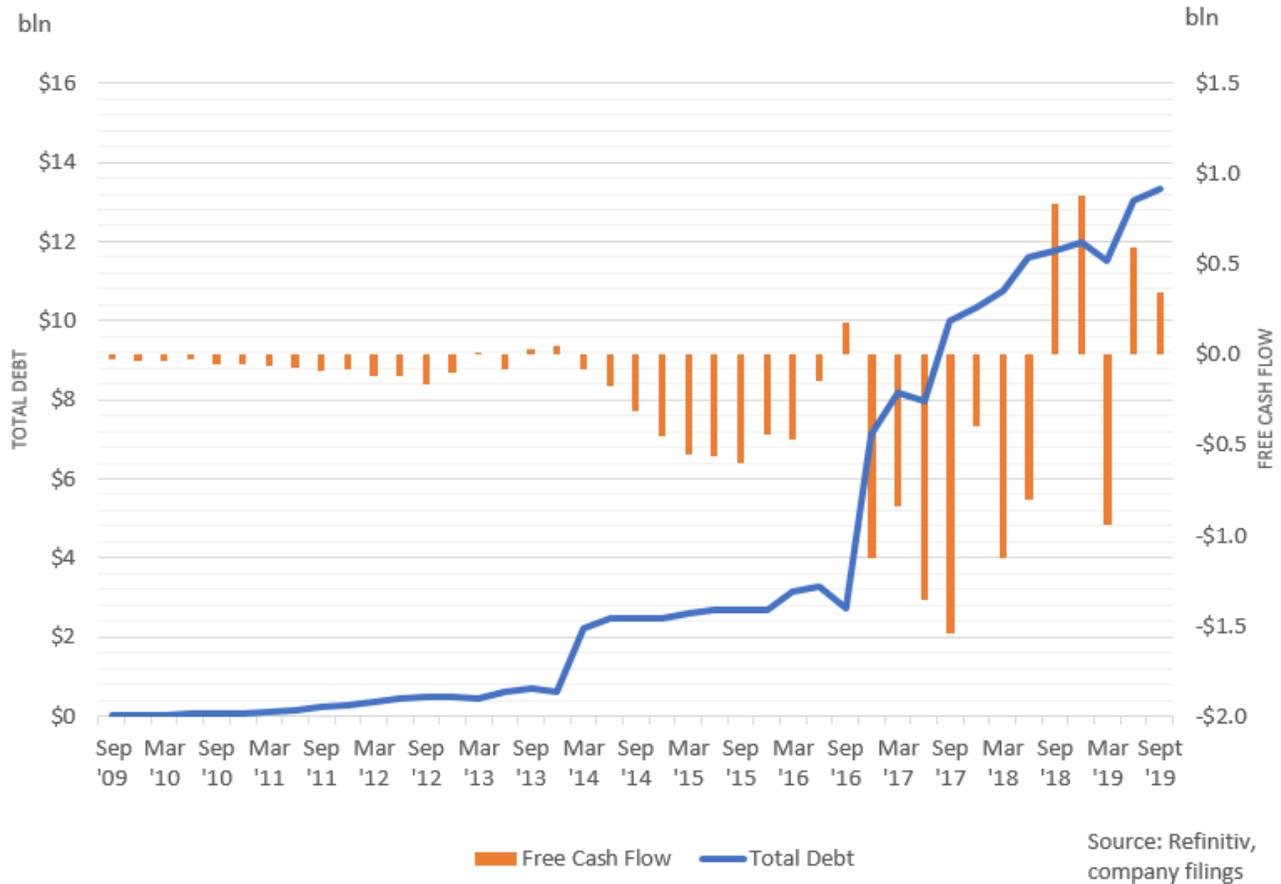
Finally, there is Peloton, of which we side with bears as we believe the company is part fad and part innovator. The latter comes from the fact that they were first to market with a truly profound new way to go after the ‘connected workout’ space. We say fad because we think the market for such products is probably smaller than people believe. Even if it isn’t, competition is fast on its heels. Case in point, Silver Lake Partners just put an undisclosed amount of money into Equinox, the operator of high-end gyms, and majority owner of SoulCycle, who plans to compete directly for the in-home market. On Friday they unveiled their dog in the hunt, but didn’t disclose the price.



Tesla

We would be remiss if we didn't mention the saga of Tesla this year as we have received many questions about our short position. Good news people, we didn't have one. Nor have we had one in over a year going back to 2018 when we said it can go to \$250 or \$500, but either way, it's going there without us. The punchline was that we simply didn't have the bandwidth to fight it out in this battleground stock on the short side, and because of the balance sheet and lack of dividend, we couldn't buy it on the long side.

Tesla's debt burden and fluctuating quarterly cash flow



From a practitioner's standpoint, we applaud those who stayed with the stock, though we think that a good part of the parabolic move higher was short covering and algorithms that buy momentum. But let that be someone else's debate. What we do know however is that there are easier ways for a short seller to get to heaven than staying in something that looks like this. Interestingly enough, noted short seller Andrew Left, went from bear to bull back in November of 2018. Uber bull Cathie Wood, founder of Ark Investment Management, has a long-term target of, wait for it, \$7,000, which is her firm's 'reach' price. That said, she has done a great job building one of the best technology and innovation investment firms on Wall Street.

Crushed



For those who stayed short the name, including David Einhorn and the “Big Short” Steve Eisman, we say you should have taken our call. While in New York two weeks ago we cold called Einhorn and Greenlight to talk about their short selling philosophy and process. But alas, the firm told us that they had ‘all the talent it needed right now’ on that side of the ledger. Good luck out there the rest of the year, gentlemen.

I’d Drink Too



With that as backdrop, we will once again plug our services. If you are a RIA, independent advisor, hedge fund, fund of funds, or anyone else who needs a short book properly managed by those with the experience to do so, please reach out and let's talk. Likewise, if you are recruiting firm in the hedge fund space, and have a mandate to find short selling talent, lets also have a conversation on how to partner. Because if you can add short side Alpha in a market like this, imagine what that looks like when things aren't so rosy.

Alternative Investment Roundup

Our best laid plans to bring you round two of the alternative investment roundup took a back seat this week as the author of these pages was in the San Francisco Bay Area to throw love and support towards the family and remember the legacy of my brother's Michelle. We will honor your life by living ours to fullest. Godspeed, fair traveler.

Diversions

One of the good guys, Peter Westwick, has published his new book titled *Stealth: The Secret Contest to Invent Invisible Aircraft*, which chronicles the progression of the technology's development beginning at the end of World War II. The Wall Street Journal provided a warm review last month, calling the book an 'elegant' recount of history. On a personal note, Pete is one of the more interesting people to talk aerospace with, as his depth of knowledge

of the space is remarkable, particularly of that in Southern California. Amazon will be happy to sell you a copy for a little over eighteen dollars.

As the post Super Bowl hangover hits, and the sporting world shifts to mid-season basketball, we would like to suggest to anyone looking for a quiet and restful weekend, take in the golf at Pebble Beach in the annual AT&T Pro-Am. CBS has the coverage led by local resident Jim Nantz, and a cameo by the legendary actor and unofficial host, Clint Eastwood.

Eastwood & Nantz

Cardinals receiver, Larry Fitzgerald, is already being called out for his dubious handicap by Golf Digest. Eli Manning has settled quickly into retirement by making an appearance at this stop on the PGA tour's West Coast Swing. For some reason, God appears to like Pebble Beach, because he is not afraid to shower down sunny and 72-degree weather on a regular basis, and a stroll down Carmel Beach is one of life's most wonderful free pleasures.

Pebble Beach, CA

DISCLOSURE: Stillwater Capital, LLC is a Registered Investment Adviser. Advisory services are only offered to clients or prospective clients where Stillwater Capital, LLC and its representatives are properly licensed or exempt from licensure. This website is solely for informational purposes.

Past performance is no guarantee of future returns. Investing involves risk and possible loss of principal capital. No advice may be rendered by Stillwater Capital, LLC unless a client service agreement is in place.

Stillwater Capital, LLC provides links for your convenience to websites produced by other providers or industry related material. Accessing websites through links directs you away from our website. Stillwater Capital, LLC is not responsible for errors or omissions in the material on third party websites and does not necessarily approve of or endorse the information provided. Users who gain access to third party websites may be subject to the copyright and other restrictions on use imposed by those providers and assume responsibility and risk from the use of those websites.

General Notice to Users: While we appreciate your comments and feedback, please be aware that any form of testimony from current or past clients about their experience with our firm on our website or social media platforms is strictly forbidden under current securities laws.