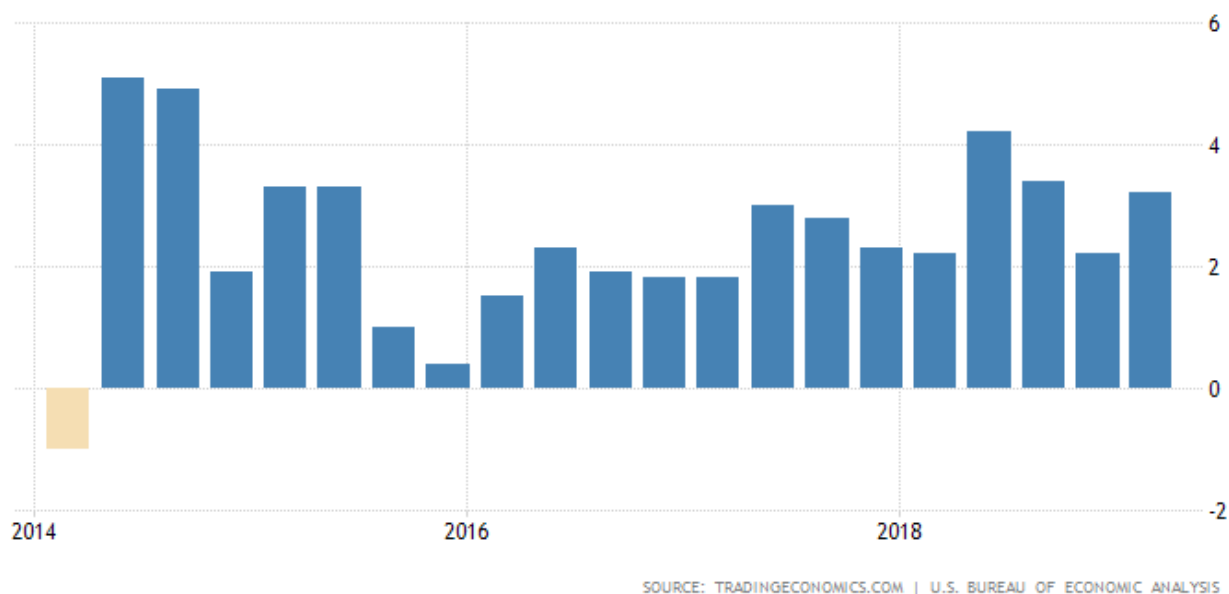


This Week In...

Economics

The first look at Q1 gross domestic product was released on Friday. For the bulls, and the current primary resident of the White House, it did not disappoint. The 3.2% came in above the 2% the market was expecting. Looking under the hood revealed that half the figure was attributed to the more volatile “trade and inventories” component. Staking a claim that growth is good, while consumer spending slowed for the third straight quarter, is not a bet we would want to make. Good luck dancing around that one next week, Jerry.

GDP



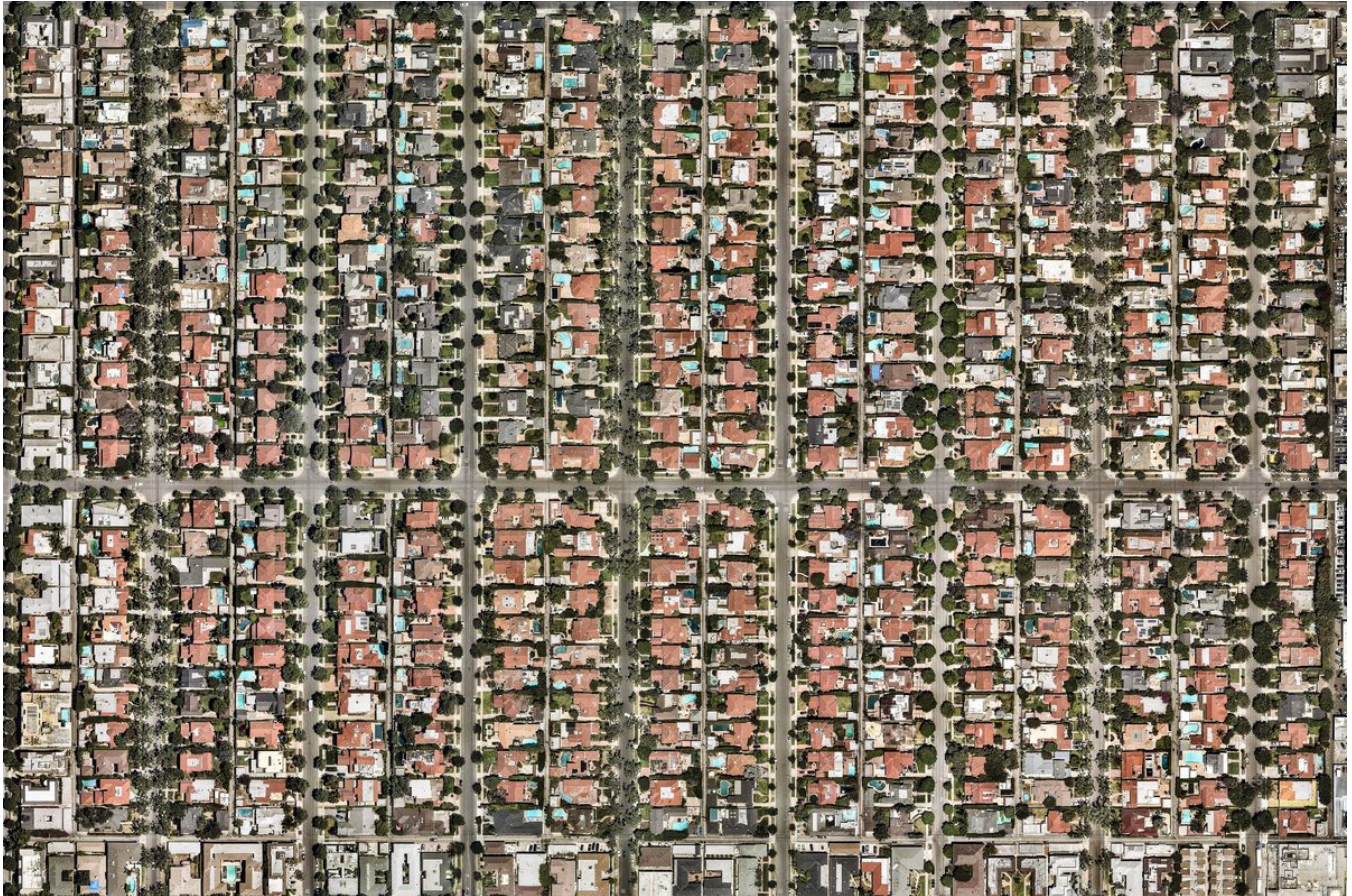
Source: Trading Economics

After a huge spike in sales in February, existing homes are trading at a slightly slower clip in March. This was somewhat expected, as a fair amount of inventory moved when rates fell as much as they did.

Existing Home Sales

northern suburb of Los Angeles. Roundtrip to the LA Basin is going to run you two to three hours...on a good day. That said, this could be the alternative.

Los Angeles, CA



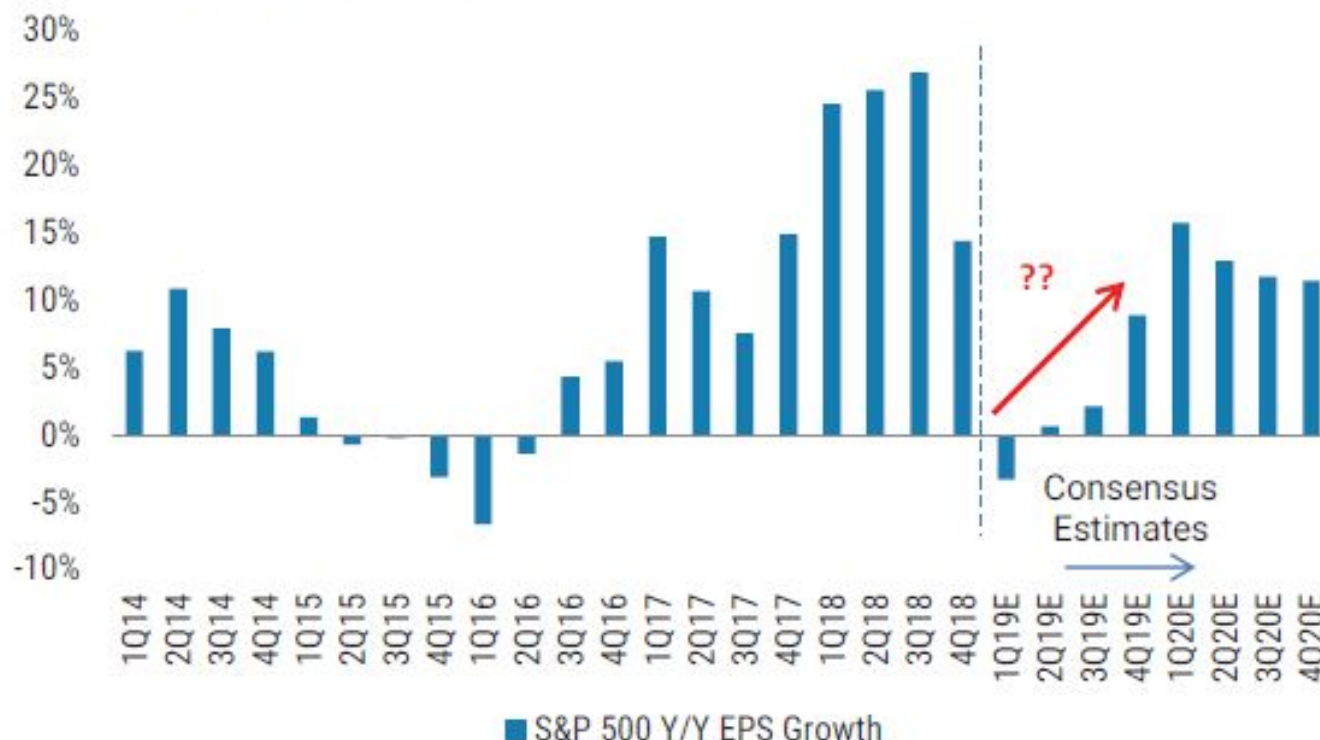
Source: Curbed

Earnings

Looks like the rollover of earnings that was expected in the first quarter failed to materialize. Many on Wall Street, including J.P. Morgan to CFRA, shared their opinion on why instead of going down 5%, S&P 500 earnings look like they are at worst flat, and possibly up 1%. If we wind up even, then the bulls will be calling this a very shallow pullback. Morgan Stanley's Michael Wilson, who has had a hot hand calling the market last year, is holding out that the 'earnings recession' is still on its way.

Shallow as a Kiddie Pool

Exhibit 2: Year-Over-Year Earnings Growth



Source: Refinitiv, Morgan Stanley Equity Research

Source: CNBC

Industries

Warren Buffet told us what we largely already knew, most newspapers are “toast”. In an interview that appeared on Yahoo Finance, he blamed the falloff in advertising revenue as the culprit. Not surprising, given the ubiquity of free news, and new advertising mediums like Craigslist.

Our biggest complaint about the news is that it's almost impossible to read without a valium. Aside from the sports section, you are forced to take down one left tail event after another. I put down the Sunday *New York Times* for good five years ago after the umpteenth front-page expose on famine, opioids, teen pregnancy, terrorism, broken government, taxes, or the current 13 players on injured reserve for the Yankees.

Seriously?



Source: Esquire

Markets

As *Bloomberg* wrote on Tuesday after stocks traded at new record highs, this was one of the fastest round trips in market history. All in, we went down for 14 weeks, and have rallied back for 17, a total of 7 months from tip, to tail, and now back to tip. If you took a poll on New Year's Day asking when we would be back at new highs, our wager is that a very few would have said "in three and a half months."

Seasick Yet?

Broken Record

The S&P topped its all-time closing high

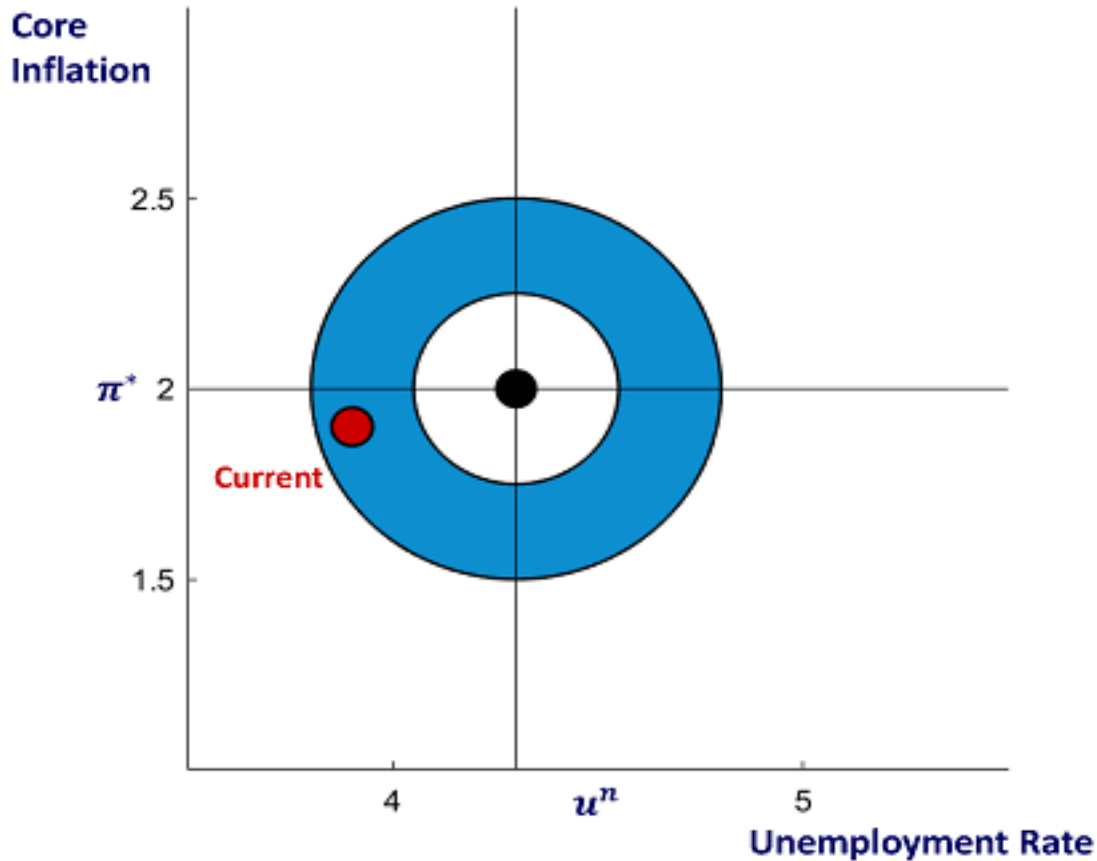


Source: Bloomberg

This rally was juiced to the upside by the FOMC and their 180 degree turn on rates this year. Keep this in mind, the Federal Reserve fights the fights it's mandated to fight. What this means, is the FOMC has what's called a dual mandate of stable prices and full employment, those are the two fights it's supposed to be in.

Twofer

The Dual Mandate Bullseye (percent)



Source: Federal Reserve of Chicago

The left axis of the chart shows the measurement of inflation using the consumer price index's "core inflation" component. It has remained stubbornly subdued during the ten-year economic expansion we are in. In past instances, the Fed has been given high cover to increase rates as prices rose. The most severe example ever was Paul Volker's power move to take the Fed Funds rate to near 20% in 1980 to combat runaway inflation. It worked, and along with capitalism, set the foundation for the extinction for inflation.

Bloomberg – April 15th, 2019



Source: Bloomberg

It's important to remember that the Fed's mandate doesn't include the need to control asset bubbles, unless of course they show up as contributing to a rise in consumer prices, which bubbles rarely do. What this ultimately means is that Jerome Powell and the FOMC really don't care about your short position or your long position. Unless of course the latter gets so battered the financial system appears to be at risk.

The 2008 Liquidity Crisis

THE WALL STREET JOURNAL.

MONDAY, SEPTEMBER 15, 2008 • VOL. CCLXI NO. 64 ***** \$1.00



Crisis on Wall Street as Lehman Totters, Merrill Is Sold, AIG Seeks to Raise Cash

Fed Will Expand Its Lending Arsenal in a Bid to Calm Markets; Moves Cap a Momentous Weekend for American Finance

The American financial system was shaken to its core on Sunday as Lehman Brothers Holdings Inc. filed for protection under Chapter 11 of the U.S. bankruptcy code, and Merrill Lynch & Co. agreed to be sold to Bank of America Corp.

By Carrie Melnick, Reuters/Craig Geremek and Anne Schuchman

The U.S. government, which bailed out Fannie Mae and Freddie Mac a week ago and ordered the sale of Bear Stearns Cos. to J.P. Morgan Chase & Co. in March, played much tougher with Lehman. It refused to give the firm a financial backstop in particular.

Without such support, Barclays PLC and Bank of America, the New York-based buyer,

walked away. On Sunday night, Bank of America struck a deal to buy Merrill Lynch for \$25 a share, or about \$10 billion. Lehman was working on a possible bankruptcy filing that would allow most of its subsidiaries to continue operating as the firm is wound down.

Though it seemed clear of a bailout, the Federal Reserve is expected to take new steps to stabilize the broader financial system. Those steps, expected to be completed, would make it easier for banks and investment firms to borrow from the central bank by using a wider range of collateral. Bankers say these "discount" facilities might lead them to turn to the Fed for more credit as they worried their many trading positions with Lehman.

In addition, 10 major credit

and investment banks announced Sunday night that they would lend \$70 billion of their own money to create a borrowing facility. The 10 banks include, from left, Citigroup Inc., Credit Suisse Group, Deutsche Bank AG, HSBC, JPMorgan Chase & Co., Morgan Stanley, Royal Bank of Canada, UBS, and Wells Fargo.

A battle of foreboding gripped Wall Street as top executives feared collateral damage from a Lehman liquidation. Attention was focused on Merrill Lynch, which owns the largest slice of retail brokers, and American International Group Inc., the insurance giant. Both firms have seen their stocks get hammered since it was clear that they

needed capital. "Monday will be a day of reckoning for the financial markets," said Charles McMath, senior managing director of RBC Capital, a boutique investment firm in New York. On Sunday, he said, "it was like a fire storm went off and people ran in all directions."

AIG executives spent the weekend trying to raise cash, either from asset sales or a capital infusion from private equity firms, or both. AIG executives were also working with regulators to see if they could transfer capital from some of its subsidiaries to the holding company.

An earlier report from Wall Street that Lehman wouldn't survive, brokerage firms, hedge funds and other

traders moved to disengage themselves from trades with Lehman. When hopes of a potential sale crumbled, a quiet panic on Wall Street turned into a mad run. Executives and traders hurried to their offices to work their phones to unwind outstanding contracts with Lehman and to gauge their own exposure.

Merrill, whose brokerage division is known as the "bonding belt," quickly started its discussions with Bank of America, which has retail bank branches in banking that could be used and has long owned Merrill. Wall Street observers said the Federal Reserve may have been involved in orchestrating the sale, figuring that it was "better to save the rule."

More news is page A10

Ultimatum By Paulson Sparked Frantic End

One of the most tumultuous weekends in Wall Street's history began Friday, when Federal officials decided to deliver a no-holding message to the owners of Lehman. That would be the government bailout of Lehman Brothers Holdings Inc.

Officials wanted to prepare the market for the possibility that Lehman could simply fail. The last way to do that in an orderly way would be to get everybody together in a room.

Timothy Leary, Harry Markopolos, Federal Reserve Chairman Ben Bernanke and his top New York lieutenant, Timothy Geithner, summoned some 30 Wall Street executives for a 5 p.m. Friday meeting at the Fed's offices in Lower Manhattan.



Source: WSJ

Alan Greenspan set this flag in the ground when he was Fed chair and opined that it was better to pick up the pieces when a bubble goes pop, than to do anything to stop it in the first place. We would argue that this policy is still in place today. For you economic wonks out there, read Steve Hanke of Johns Hopkins describe the history of Fed inspired bubbles.

Greenspan and "The Bernank"



Source: Forbes

Crude prices were back in the news this week, as President Trump told OPEC to stop cutting production, a move that will drop oil prices. While this has somewhat worked in the past, Saudi Arabia appears to be telling The Don to “take a hike”, we got this one. The president is also threatening to end a policy that allowed Iranian oil to flow out to the market. Last year when he extended the policy it caught the market off guard, Stillwater included, and crude prices dropped from \$72 to \$47 in two months. This gave him the chance to claim victory for lower prices at the pump for the American people.

Crude Oil



Source: MacroTrends

Wall Street

The world's financial elite will gather again this weekend for the annual Milken Global Conference in Beverly Hills. A ticket to entry starts at \$15,000 and goes up from there, depending on the level of access you are looking for. While everything else is sold out, you can still grab a \$50,000 Presidents Circle badge.

When comparing the two, Davos is considered the place for dreaming big dreams, and Milken is there for getting deals done. Regardless of semantics, the corner of Wilshire Boulevard and Santa Monica will become the epicenter for Masters of the Universe, and those who think they are, next week.

Doors Open Monday



Source: Canyon News

In a move that screams “you must be kidding me”, one of the last oil hedge fund managers, Pierre Andurand, is opening up a new fund in June that will give him an even longer risk leash. This for a guy who closed up his first shop in 2012 for poor performance, and also lost his clients 21% in October of last year. Even with the 30% recovery in crude this year, his main fund is only up a scant 5.2% this year, according to the *Wall Street Journal*. To this day we have little clue, aside from the fee structure, as to why other managers find the need to take on such risk when the sector is risky enough.

The Bakken, North Dakota



Source: Emerson

Building on the success of our Hedged Equity Income strategy last year, Stillwater Capital is looking for interested investors for our first sector specific long/short fund, this one focused on energy. The opportunistic fund will have an intermediate to long-term investment mandate, with a trading component mixed in to enhance upside capture and hedge risk when necessary. Indications of interest are welcome.

In what we would call a win for liquid alternatives, Cohen & Steers is about to land a \$500 million allocation from an undisclosed German institution for a real estate and infrastructure fund focused on publicly listed securities.

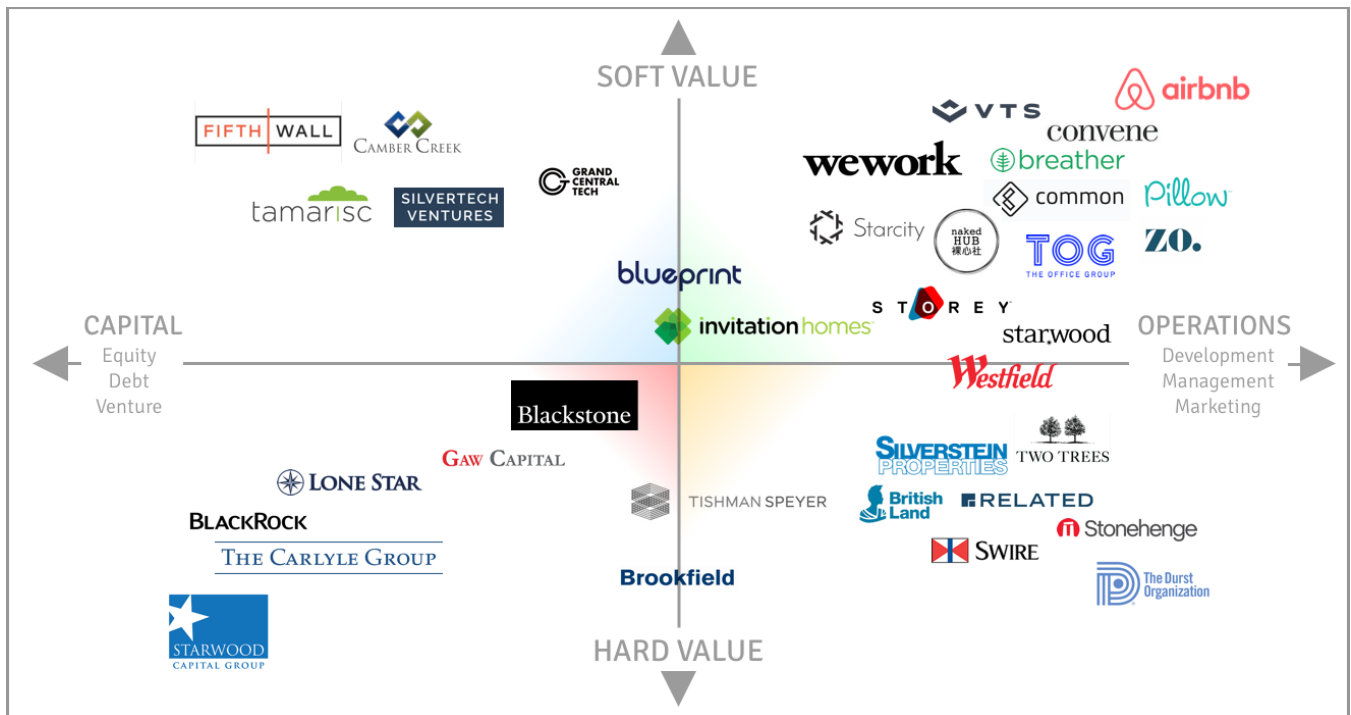
Ten Years Listed



Source: YouTube

One of the most appealing reasons for a liquid fund is the ability to put money to work faster, and to also take it out with ease. In a *Bloomberg* article, co-founder Robert Steers commented that this is the first time he has seen this frustration manifest itself into direct asset flows. Of course, he was talking about his own book, because if you don't, who is going to talk about it for you? We understand.

P/E Real Estate Matrix



Source: Startups & Venture Capital

In case you missed it this week, YOLO is now an ETF .That's right, the handle for "You Only Live Once" is now a security you can buy to gain exposure to a basket of Canadian cannabis growers. The small \$2.5 million in assets ETF will cost you 0.75% on every dollar you put in, which seems steep given how easy it is to create your own quasi sector basket, or to work with someone who can, the cost on that being next to zero. The largest marijuana ETF in the market is Alternative Harvest, which goes by the symbol "MJ". and has a stout \$1.25 billion in AUM.

Field of Interesting Dreams



Source: Bloomberg

Diversions

From day one, we've wrapped up *This Week in the Market* with *Diversions*. Fashioned after the original Weekend section of the *Wall Street Journal*, it's designed to send you off into your weekend thinking about the better things in life that can divert us from the daily grind.

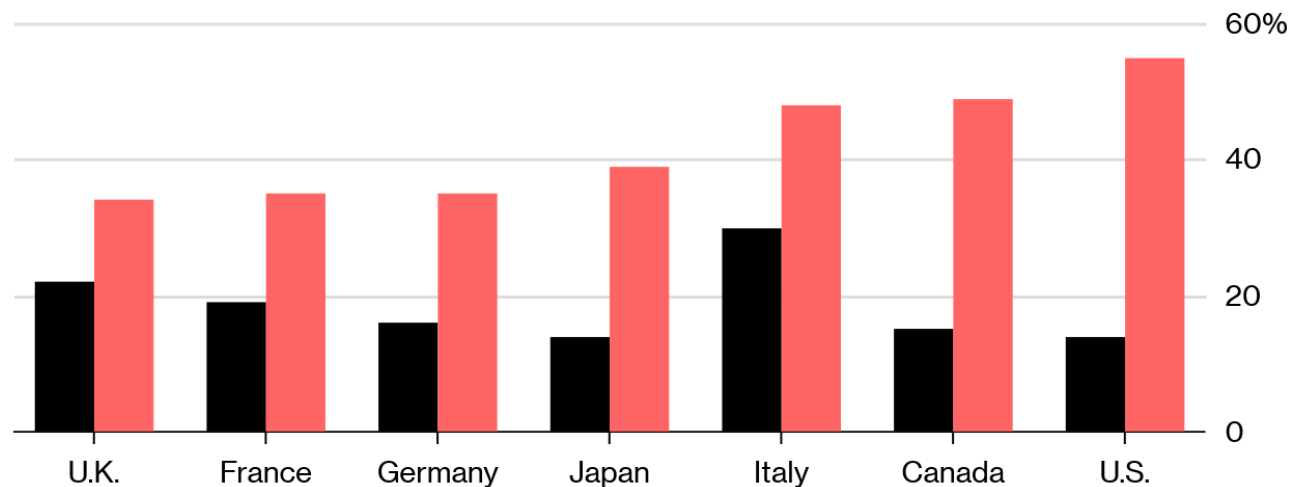
This week, *Bloomberg* handed us a little gift to reinforce the idea when they ran a piece highlighting the findings of Gallup's 2019 Human Emotions Report. In a shock to no one, we are the most stressed here in the U.S., while the Italians are the angriest. Proof once again that espresso isn't the panacea people think it is.

Xanax Anyone?

Stressed Out

Americans are the most anxious among G-7 countries; Italians angriest

■ Share of respondents reporting daily anger last year ■ Daily stress



Source: Gallup 2019 Global Emotions Report

Bloomberg

Source: Bloomberg

Ken Jennings, move down the bench, James Holzhaur just blew past you like McGuire and Sosa did to Roger Maris. This week, the current 'Jeopardy' champ crossed over the \$1 million mark in winnings, having pulled in \$1,275,587 as of Friday. Fox News reports that fans of the show are getting 'bored'. *The Chicago Tribune* asks if he is 'Man or Cyborg'. Meanwhile, his hometown paper, the Las Vegas Review-Journal gives us a look into what this 'terrible student' was like before his 15 minutes of fame. We don't think James cares about any of this. After all, a million bucks is a million bucks.

Who Knew?



Source: Cinema Blend

Next Saturday, the Churchill Downs will host the 145th running of the Kentucky Derby. Bob Baffert's Omaha Beach is the early favorite at 7-2. Our favorite name in the race, Anothertwistafate, is currently going off at 40-1. And for those betting the longshot, Sueno can be had for 300-1.

145 Years of Tradition



Source: CBS Sports

Every once in a while, we go looking for the best historic homes currently on the market. This week, during our exhaustive 30 second Google search, we came across a drool-worthy website called Circa House, www.circaoldhouse.com. What we found was nothing shy of spectacular, as the site lists historic homes for sale in all 50 states. Californians be warned, what you can find outside of the bastion of our consistently sunny and 72-degree weather and 13% state tax might have you backing up the U-Haul. Exhibit A, the circa 1840 Albion house in Blackstock, South Carolina on 130 acres, that is currently listed at \$988,000. Did we mention the 8 fireplaces?

Albion



Source: Circa Old House