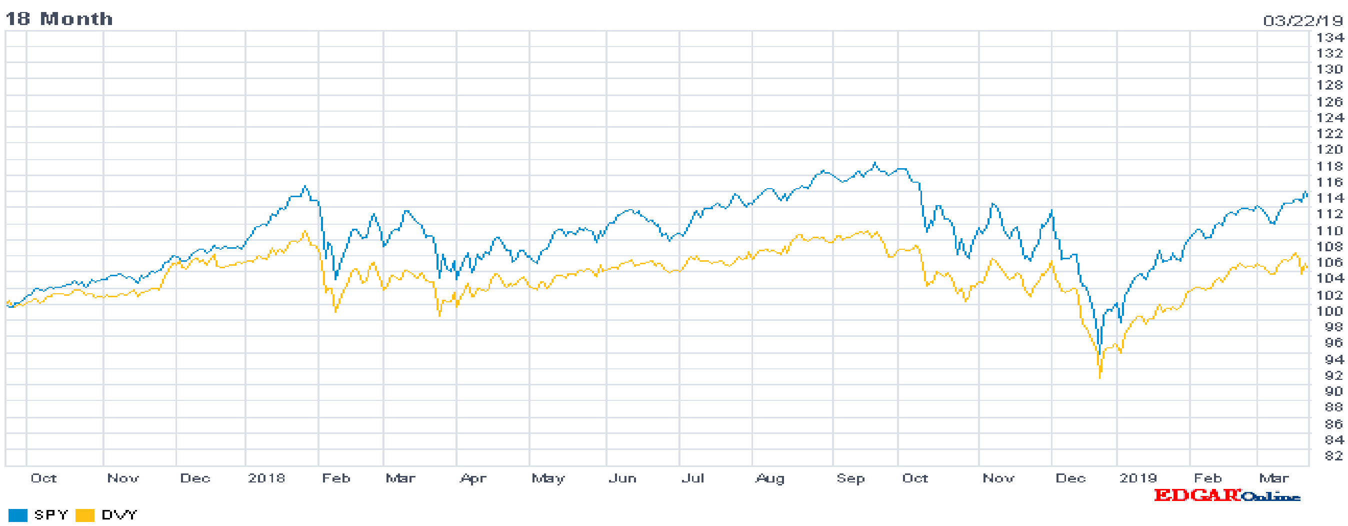
Stillwater Strategies & Solutions

We do a fair job of keeping *This Week in the Markets* focused on just that, markets. Once a quarter we like to provide an update on existing strategies and take the time to highlight new ones.

Closing the fourth quarter of 2018, Stillwater saw increased interest from clients who wanted to maintain equity exposure while reducing risk. Our platform can provide built to order solutions, and that is just what we did. One reason for the increased interest is the embedded downside protection features the portfolios we manage contain. Fortunately for our investors, they worked well last year.

The chart below shows the volatile, low-return profile of the S&P 500, and the iShares Select Dividend ETF. Over the past year and half both have traveled far yet shown only modest progress

SPY v. DVY



Source: Nasdaq

Our primary strategy, Hedged Equity Income, produced a positive 2.75% return in a market where the S&P 500 dropped 4.38% and the Morningstar long only equity income category fell 8.53%. This was a solid return in a market where few asset classes left you with a gain in 2018. If you have an interest in this strategy, or others, reach out to us and we will send you specifics with a fact sheet explaining how we manage the portfolio.

If you currently have long held positions in ETFs, or single stock portfolios and want to reduce downside risk as market volatility increases, connect with us. There is a good chance we can create downside protection for you without having to sell existing portfolio or move assets. If you are interested in this strategy or others, please reach out to us and we will provide you specifics and a fact sheet detailing how we manage the portfolio.

That's it for now from the Stillwater Capital marketing machine. We hope you consider using these solutions or refer us to other investors. And now back to the commentary.

This Week In…

Economics

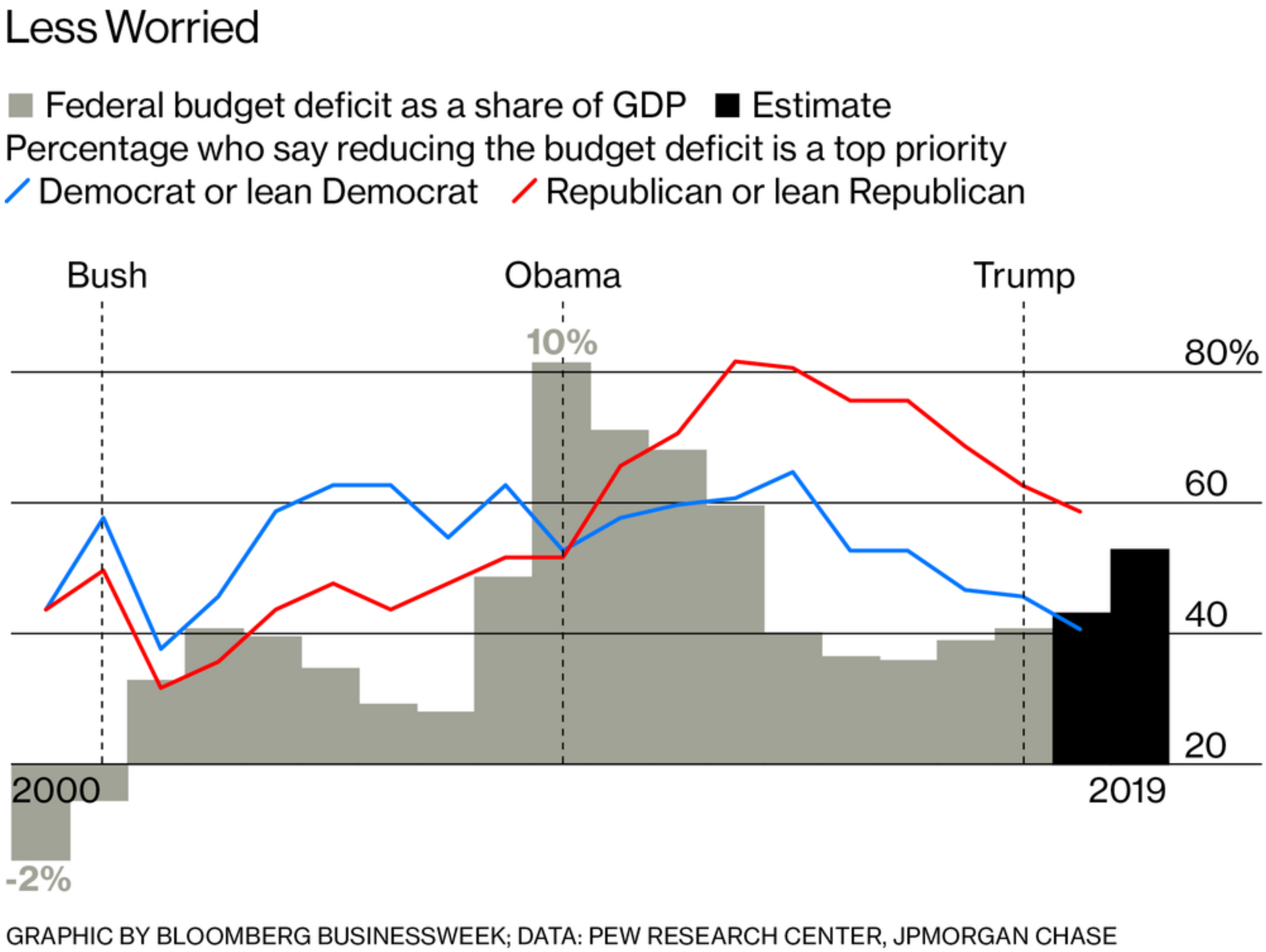
Jerome Powell signaled that the Fed was all-in on turning the policy ship around this week, removing rate hikes from the menu for the remainder of 2019. For the bulls, this was like Christmas in March. One of our favorite analysts, Jefferies' David Zervos, called this a great effort to make amends for fumbling the message last fall, when Powell showed little sense of touch, and communicated that rates would be heading higher…until they wouldn't be.

"The Fish Was This Big…I Swear"

Source: CNBC

With this move by the Fed, the risk of the ratcheting up of the Fed Funds Rate has vanished. Meanwhile, the curious man who lives in the White House smiled a great big smile, or at least we think he did, albeit perhaps for the wrong reason. Keep in mind, this same guy needs 3.5% GDP growth out to the horizon to make any sense of the exploding budget deficits being racked up.

Whistling Past the Debt Graveyard



Source: Bloomberg

Jeffrey Gundlach, who also worries that the deficit will someday be a huge problem, thinks we are still in a bear market, and asks the Fed Chair to come clean with why the policy making committee he presides over swung so hard. "Say Trump demanded it. Say you are worried about Europe or China, or the yield curve, or retail sales, or GDP now. But stop with the gaslighting". We could not agree more and would love an explanation for the magnitude of this turnaround as well.

The Big Swing

Source: Wikipedia

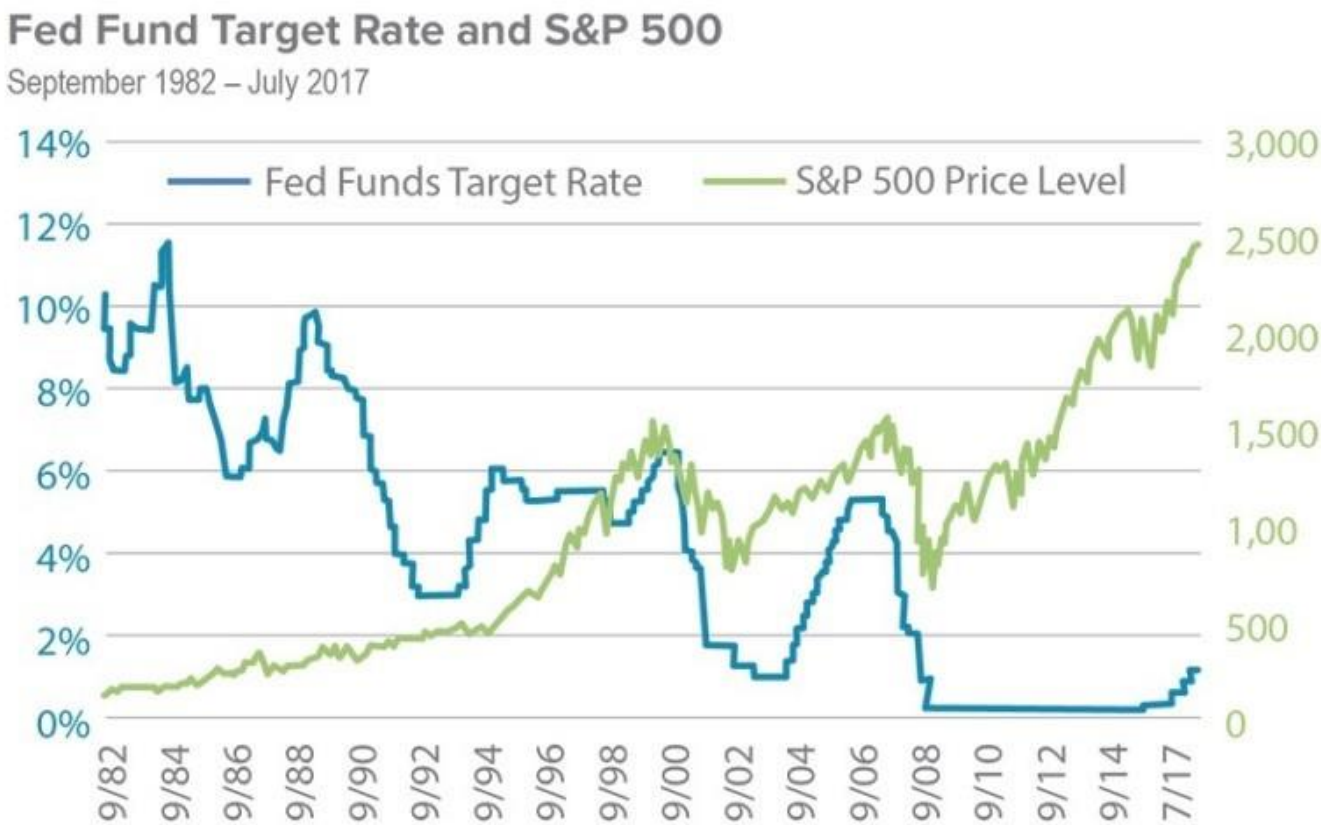
With this move, the "Fed Put" is now firmly back in place. Bulls think that Jerry & Co. can feather in the landing as the economy softens later this year, and then hit the gas and throttle her back up into another expansion early next year. The equity market expects this to be the case, while the bond market says the opposite. They won't both be right, and that's what makes a market.

The Spread Widens

Source: Bloomberg

Having hedged down portfolio risk, we weren't particularly well positioned for this kind of blow off to the upside. Doesn't mean we didn't make money, just not as much as those who went all in on December 20th. This takes us back to the idea of the "Fed Put", and whether it still exists. The "Put" has been in place since Chairman Paul Volker dropped the Fed Funds Rate 1,050 points, yes 10.5%, from June of 1981 to September of 1982. It has stayed in place ever since, through Greenspan, Bernanke, Yellen, and now Powell.

Target Rate Lower = S&P 500 Higher



Source: Naylor Asset Management

The "Fed Put" means that if markets get too negatively skewed, or the economic outlook so bad, the Federal Reserve is there to offer a monetary backstop that encourages the animal spirits to buy risk. It also drops the borrowing rate and encourages levering up at cheap rates.

Appaloosa's David Tepper, said late last year when several hikes were on the table, "Powell basically told you the Fed put is dead" and that "cash is not so bad", we thought that was a reasonable idea as well. Three months later, Powell morphed into Max, and told the animal spirits to come alive again, and let the wild rumpus roar.

Powell is the King

Source: Southern Miss Now

Company News

Biogen lost 30% of its $63 billion market value on Thursday when a phase three trial for what the company had hoped would be a blockbuster Alzheimer drug failed. As several analysts pointed out, this was the highest profile trial in the drug approval pipeline. We point this out as a reminder of how binary the world of drug approval really is. Like no other industry, does a company's hopes, fears, dreams, and nightmares rest more solely on a singular event than the biotech industry, and we were reminded of that again this week.

Billions Gained, Billions Lost

Source: Bloomberg

This is a good lead into our next story, that of the scandalous downfall of Elizabeth Holmes and Theranos, the blood testing company that was supposed to change the world. This week, HBO Films released "The Inventor: Out for Blood in Silicon Valley" , directed by Academy Award-winner Alex Gibney. It exposes how Holmes went really big on the Theranos fraud, lining up $1 billion in funding for the company that would eventually be valued at $9 billion. She also managed to pull together some big names to join the company's board.

Theranos Board of Directors

Board Member	Designation	Age
Henry Kissinger	Former Secretary of State	92
Bill Perry	Former Secretary of Defense	88
George Schultz	Former Secretary of State	94
Bill Frist	Former Senate Majority Leader	63
Sam Nunn	Former Senator	77
Gary Roughead	Former Navy Admiral	64
James Mattis	Former Marine Corps General	65
Dick Kovocovich	Former CEO of Wells Fargo	72
Riley Bechtel	Former CEO of Bechtel	63
William Foege	Epidemologist	79
Elizabeth Holmes	Founder & CEO, Theranos	31
Sunny Balwani	President & COO, Theranos	NA

Source: The Vatic Project

In an interview with New York magazine, Gibney explains why Holmes would believe her own lies. Which is pretty much the same reason Billy McFarland created the sham Fyre Festival. If you are one of those fraud junkies, you can binge watch “The Inventor” and “FYRE-FRAUD” this weekend. Both are amazing looks inside the minds of true sociopaths.

The Cult of Personality

Source: Fortune

FedEx, which is usually a good barometer of the health of commerce, coughed up a big hairball this week, when they announced revenues 20% below last years levels. The company laid the blame on weakening international trade, while they said the United States remained relatively strong. The message sent from the company was so bad that *CNBC* ran a story with the headline "FedEx just warned that the whole world was slowing." So we've got that going for us, which is nice.

FedEx Hub in Memphis

Source: Transport Topics

Shares of CuraLeaf moved up 20% this week, when the American domiciled, Canadian listed, maker of cannabis derived products announced they would begin offering their wares through 800 CVS stores nationwide. The pharmacy operator is going to be taking it out slowly, offering CBD based products in only 8 states to begin with. Our guess is Colorado and California will be two of them.

CuraLeaf Lineup

Source: CuraLeaf

The legendary fashion house, Levi's, is once again publicly traded. On Wednesday, the company saw its shares rise 30% from the initial IPO price of $17. Founded by Bavarian immigrant Levi Strauss in 1853, the maker of dry goods and work jeans benefited handsomely from its position in San Francisco, in the heart of the California gold rush.

The Original Hipsters

Source: lobdenim

The company was taken private in 1985 after fourteen years as a public company. Strauss' descendants, the Haas family, turned a $6 million ($175 in today's dollars) inheritance into $5.6 billion after the offering. Maybe now they can scratch a check and buy Cal a decent college football team.

Roll on You Bears!

Source: Cal Band

Growth at the company has been led by a push into the woman's category, as they pit skinny jeans against "athleisure". CEO Chip Bergh, in a 2018 essay about the iconic brand for the *Harvard Business Review,* wrote "It drives me crazy that women wear yoga pants to nice restaurants—denim would look so much better. But they're choosing athleisure because it's more comfortable,"

To give you an idea about how insane the world has become, or how out of touch with it I am, the post below was from Kylie Jenner while wearing the companies "Wedgie Fit" jeans in 2017. Apparently, this is how brands rise and fall these days. That being said, the stock trades under a pretty cool symbol, "LEVI".

Kylie with the Wedgie

Source: blesmagazine

Hedge Funds

Bill Ackman, a veteran member of the Golden Age of Hedge Funds, is seeing a renaissance this year as his Pershing Square fund was up 30% through Wednesday. While this doesn't make up for several years of punk performance, it does give the billionaire investor a few more dollars in his pocket. The fund is a fraction of the size it once was, and is now closed to outside investors. Ackman provided the *Wall Street Journal* with a look inside how his world view has changed. No more activist fights, or high-profile short positions. Just good old-fashioned investing.

Year-End 2018 Holdings

Entity	Market Value as of 12/31/2018	Shares as of 12/31/2018	% of portfolio 12/31/2018	Market Value as of 09/30/2018	Shares as of 09/30/2018	% of portfolio 09/30/2018
Restaurant Brands Intl. (QSR)	$1,029,557,000	19,685,602	17.28%	$1,235,628,000	20,843,919	23.72%
Lowes Companies (LOW)	$880,800,000	9,536,591	14.79%	$968,943,000	8,438,801	18.60%
Chipotle Mexican Grill (CMG)	$838,018,000	1,940,799	14.07%	$935,905,000	2,059,106	17.97%
Hilton Worldwide Hldgs (HLT)	$786,029,000	10,947,479	13.19%			
Starbucks Corp. (SBUX)	$756,986,000	11,754,441	12.71%			
United Technologies (UTX)	$593,967,000	5,578,203	9.97%	$691,750,000	4,947,788	13.28%
Automatic Data Processing (ADP)	$533,675,000	4,070,126	8.96%	$607,073,000	4,029,427	11.65%
Element Solutions (ESI)	$417,864,000	40,451,506	7.01%	$504,430,000	40,451,506	9.68%
Howard Hughes Corp (HHC)	$120,423,000	1,233,589	2.02%	$264,991,000	2,133,236	5.09%
Total	**$5,957,319,000**			**$5,208,720,000**		

Source: Seeking Alpha

Markets

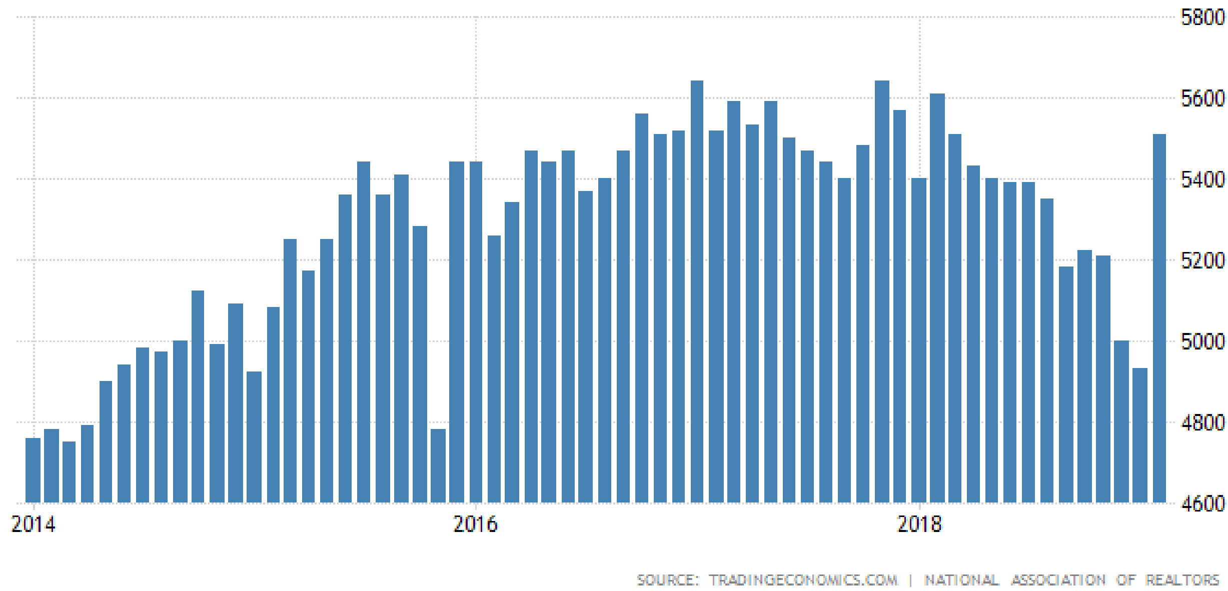
The struggling housing market just got a huge shot of adrenaline as mortgage rates have come cascading down, along with rates in the United States and around the globe. Case in point, yields on the German 10-year went negative this week for the first time since 2016. Here at home, the rate on the benchmark 30-year fixed mortgage dropped to 4.28% on Friday, down from 4.86% on October 1st of last year.

30-Year Fixed Mortgage

Source: Macrotrends

In a sign of the elasticity of the housing market in relation to interest rates, existing home sales had a huge jump in February, breaking a downtrend that started one year ago. The drop-in rates could not have come at a better time as inventory had been growing, and the spring selling season is upon us. The risk is that these lower rates, and freshly inverted yield curve, are predicting a recession that would negate the benefits to the market.

Existing Home Sales

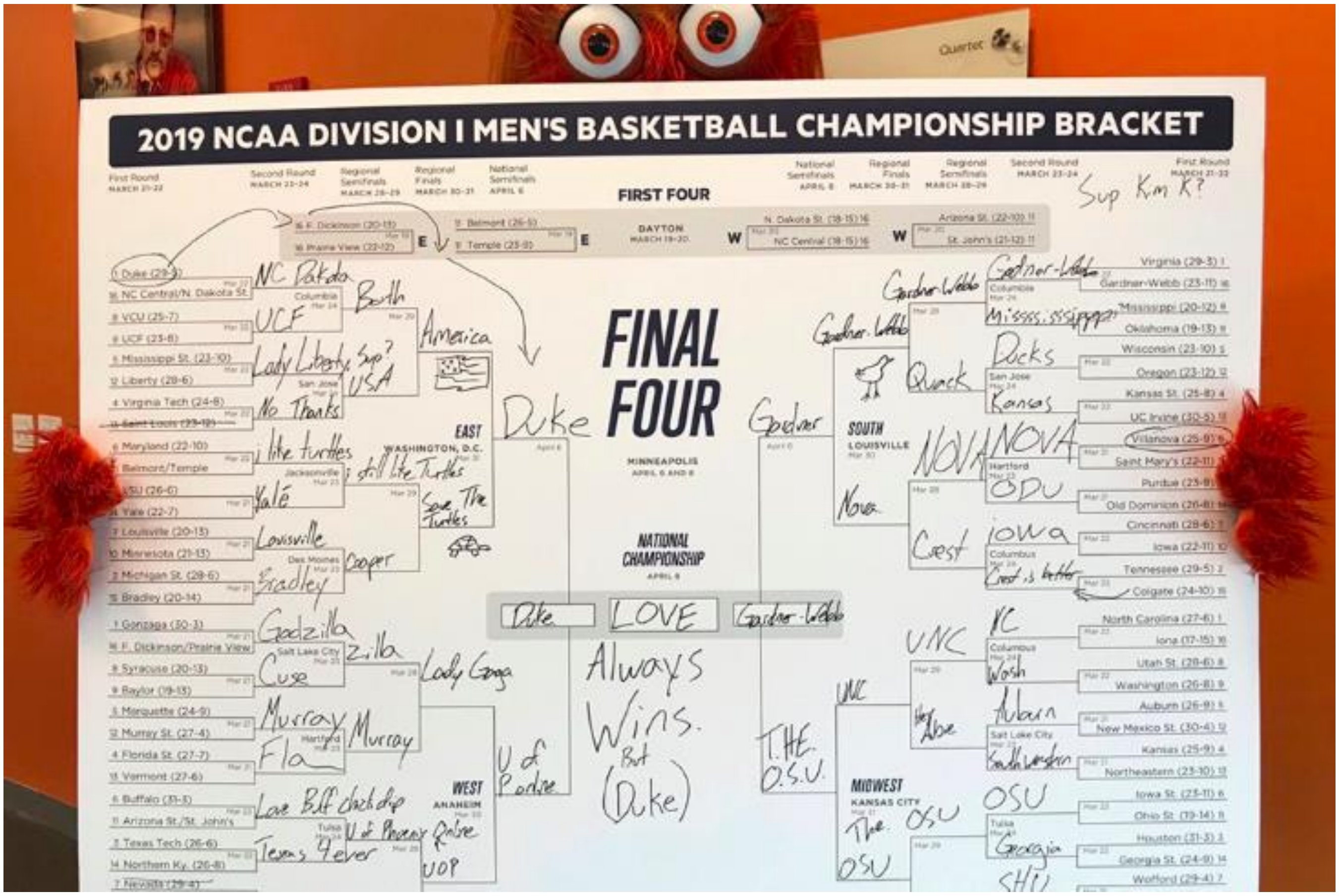


Source: Trading Economics

Diversions – March Madness

The NCAA Men's Basketball tournament started Thursday night, and the market says its Duke's national championship to lose. To show you just how hard it is to build a perfect bracket, only 0.25% of the 17 million brackets submitted to ESPN's Tournament Challenge remain pristine. President Barack Obama hedged his bet this year, and has "love", or the team that calls Cameron Indoor Stadium home, to win.

Obama's 2019 Bracket



Source: PhillyVoice

Bloomberg pulled together some big names in technology and finance to participate in their annual “Bloomberg Brackets for a Cause”. People like Lasry, Tudor-Jones, Bloomberg, Moelis, and Marks participated. Not that you need another pool to follow, but the one *Bloomberg* put together is pretty impressive, if it weren’t for the fact that half of those playing had the Blue Devils on top.

In Zion We (Really) Trust

Source: Pintrest

If you are at all a fan of the game, have had your alma matter win a national championship, or just like to see young collegians cry, then "The ball is tipped, and there you are…" is a video montage from *For The Win* you must watch. It is a reminder of what a wonderful thing college athletics is, faults and all.

May your team go big or flame out early, and also in style. At the end of the day, only *you* will remember where they settled out. A week later the rest of the country will have moved on to "a tradition unlike any other". Curse you Jim Nantz, you have the best job in the history of best jobs, and great announcer hair to go with it.

We Know Why This Man is Smiling

Source: Global Golf Post