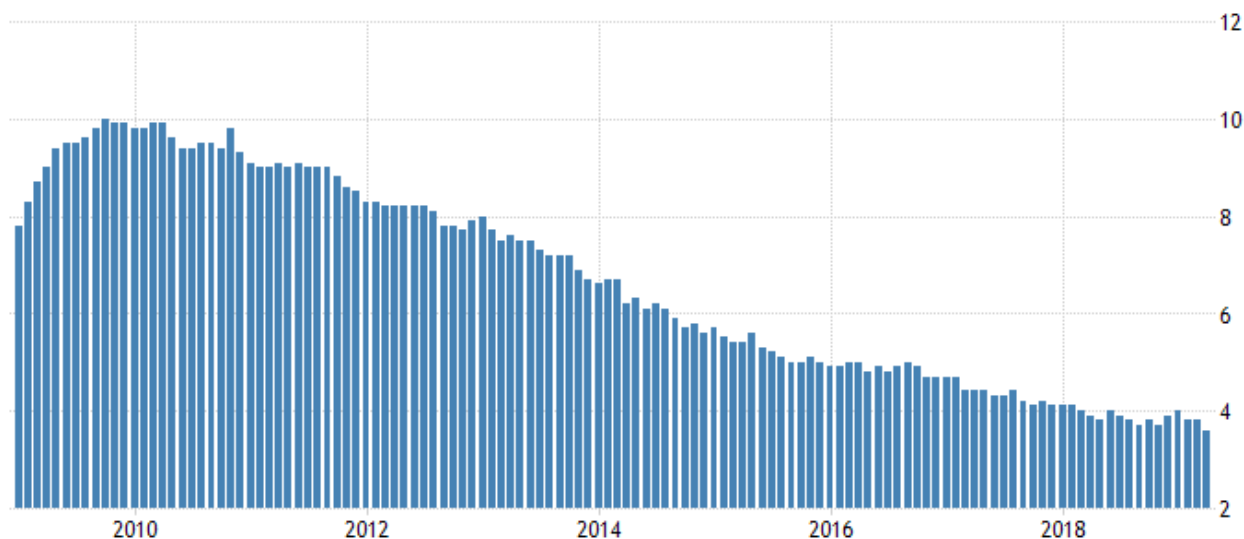


This Week In...

Economics

The jobs machine continues to rev at a high RPM, and February's meager 33,000 additions to the workforce is now in the rearview mirror, as April produced 263,000 new jobs, while the unemployment rate fell to 3.6%, the lowest level since 1969.

No Bottom in Sight



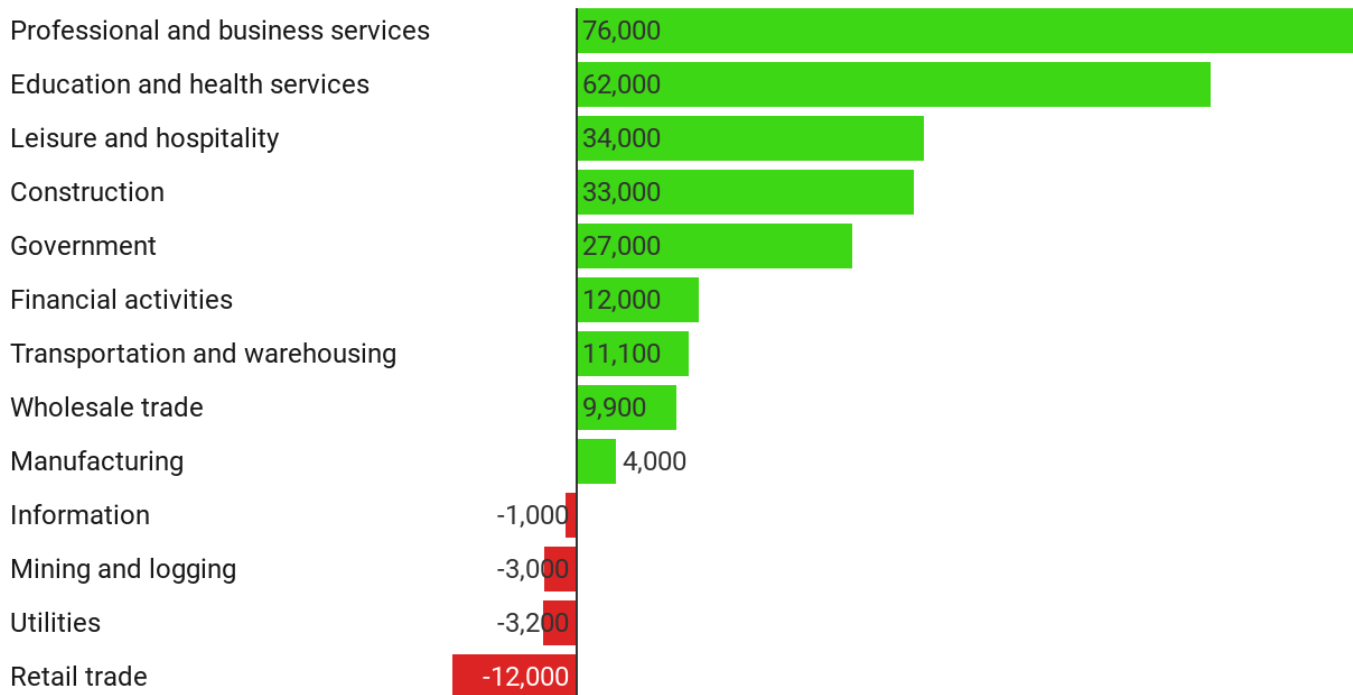
SOURCE: TRADINGECONOMICS.COM | U.S. BUREAU OF LABOR STATISTICS

Source: Trading Economics

For data geeks looking to pop the hood and get a 'bird's eye view' of things, CNBC provides a visual of where the job growth occurred last month. Just remember, it's all ball bearings these days.

More Jobby Jobs

April jobs one-month net change

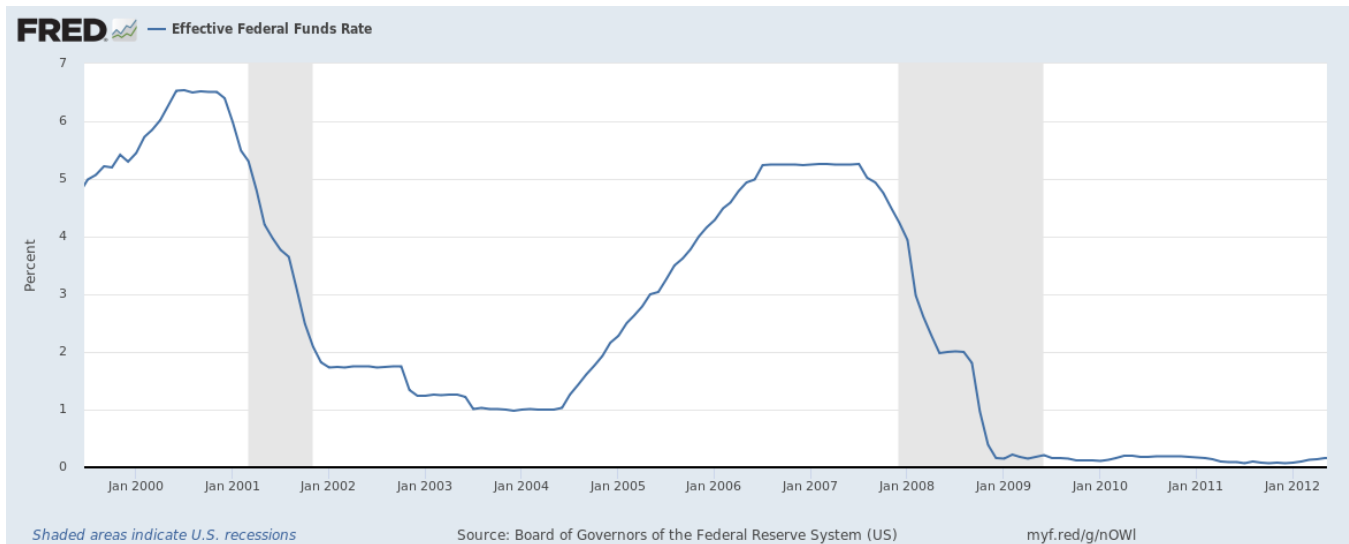


Source: Bureau of Labor Statistics • [Get the data](#) • Created with [Datawrapper](#)

Source: CNBC

The Fed meet this week, and held rates steady at 2.25%-2.50%, citing a lack of inflationary pressures in an otherwise strong economy. The previously mentioned jobs report showed little in the way of wage growth, a key determiner of Fed behavior. In the meantime, President Trump called on the FOMC to cut rates by 1% and do some of that quantitative easing thing. On Friday, Vice President Pence said the same thing. The last time the Fed took that drastic an action was in 2008, as the economy was in free fall and the lending markets were frozen.

The Birth of ZIRP



Source: The St. Louis Federal Reserve

Back to Trump and Pence for a minute. If you think about it, calling on the Fed to drop rates is a pretty brilliant move. First, it's been fairly well chronicled that the president can get away saying almost anything. That being the case, there are few in his base who will argue with him. Second, if the economy continues to charge ahead, the claim will be its all him. If it falters, he is going to pull out the cannons, look at the cameras and say, "it's the Fed's fault. I told them to drop rates but they wouldn't listen." With that, Trump has now boxed his position and put himself in the best position possible as it relates to the economy.

"It's the Economy...."



Source: CNN

Rick Rieder, a big man who runs big money for BlackRock, offered up his opinion that Powell & Company should not be as worried about a lack of inflation as they are. He went on to say that the next move in rates was going to be higher. But for now, enjoy the “Goldilocks” moment.

Big Rick Rieder



Source: CNBC

It was mixed news for the housing sector of the economy this week. The Case-Shiller Home Price Index showed the smallest gain in prices since September 2012. The weakest markets included Los Angeles, San Diego, and San Francisco. CNBC's terrific real estate reporter, Diana Olick, produced a great piece this week on the change in sales and sentiment on higher end real estate.

Turns out there is a threshold for just how much those living in high tax states are willing to absorb before it impacts the way decisions are made. More on the flight of the rich later in this column. In related news, a seven-year run of appreciation came to an end as home prices in the San Francisco Bay Area fell for the first time since 2012. While scant, a 0.1% decline still counts! That being said, the economics are still jaw dropping. Case in point, 338 Santa Monica Ave in Menlo Park. For a cool \$3 million you can get two bedrooms, two baths, in a "cozy" 1,300 square feet of living space.

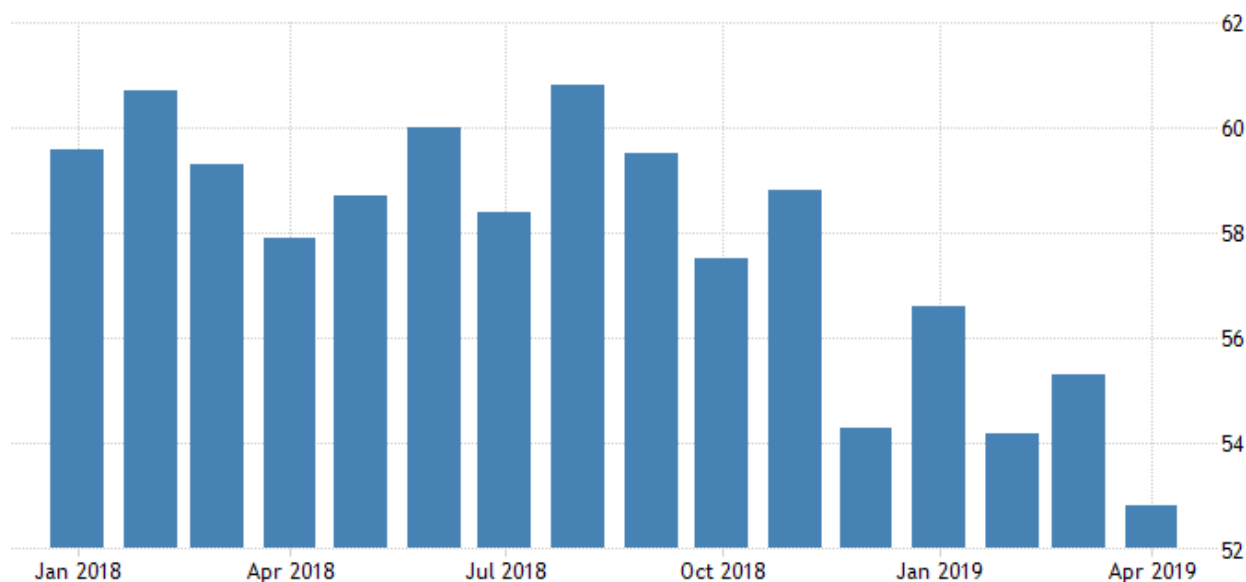
Open Sunday 2:00 – 4:00!



Source: Redfin

The only sand in the gears of an otherwise well running economic machine is the continued softening in manufacturing. This week we received news that instead of rebounding, the purchasing managers index (PMI) fell once again. The threshold for expansion and contraction is 50, and that bogey is getting closer and closer each month.

PMI



Source: Trading Economics

Berkshire Annual Meeting

The annual rite of investor spring, the Berkshire Hathaway Annual Meeting, took place yesterday in Omaha. Going in, Warren Buffett made the financial news rounds, chatting with *CNBC*'s Becky Quick as people started to gather at the home office. In the interview, Buffett gave a fantastic and transparent look into how he got involved in the Chevron/Occidental deal for Anadarko. Nothing like a platinum Rolodex to get things done.

“Who will give me \$78?”



Source: Bloomberg

The coverage of the annual meeting is deep, and cuts across all aspects of the life and investing times of the Oracle of Omaha. *Bloomberg* wrote a great piece showing how the 2,472,627% rise in Berkshire's stock has made some families billionaires several times over. *CNBC* provides a look at the 15 largest stock holdings of the company, and what they mean for the smaller investor. Finally, *The Omaha World-Herald* wrote up everything you would ever need to know about the annual event that draws thousands.

CenturyLink Center



Source: Star Tribune

The single best quote we heard going into the meeting, and one that helps us sleep better at night knowing that we are not the only ones scratching our heads, was Buffett's comment regarding the anomalous nature of this economy and the length of the recovery.

Wise Words

"No economics textbook I know that was written in the first couple of thousand years that discussed even the possibility that you could have this sort of situation continue and have all variables stay more or less the same," - Warren Buffett



Source: CNBC

Financial Planning – Operation Exodus

The rich aren't just on the move inside the United States, fiscal flight is now happening on a global scale. *Bloomberg* reports that Australia is the most desired international destination, followed closely by the U.S. The list of reasons varies, but family economics are a big driver. The Aussie appeal is that there is no estate tax. Keep in mind, those looking for a new place to hang their hat have enormous estates that could use a safe shelter.

“Aussie, Aussie, Aussie!”



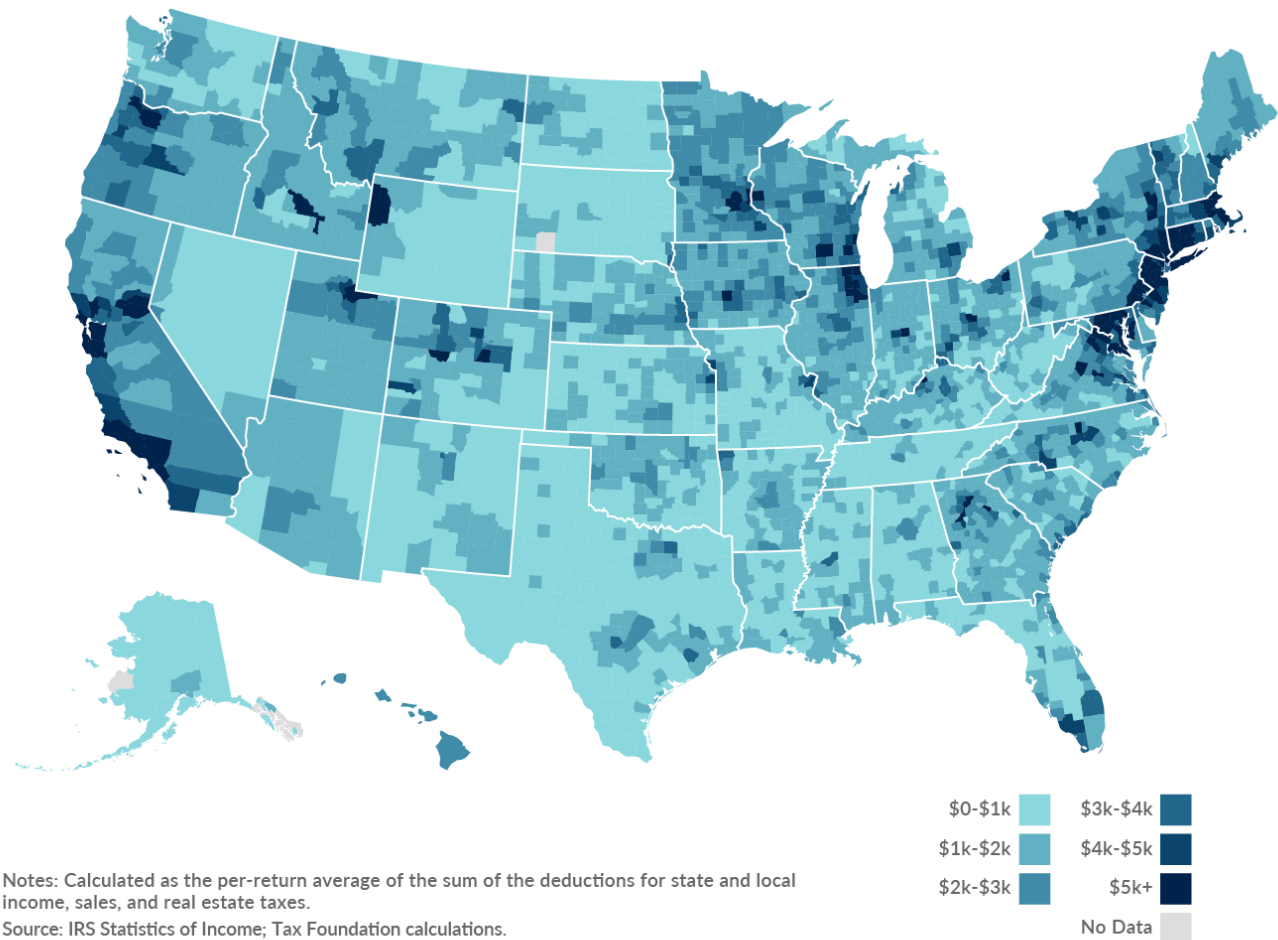
Source: News.com

As mentioned earlier, the rising stockpiles of expensive homes in New York, New Jersey, Connecticut and California is just one more piece of evidence that says the race is on to Texas, Wyoming, Florida, and Nevada. A lot of this new and more vigorous religion is that the elimination of SALT deductions is finally being materially felt. As a refresher, SALT stands for State and Local Taxes, and their elimination as a deduction was part of President Trump's 2017 tax overhaul. It's not lost on anyone that the biggest hit is being seen in deep blue states.

Coast Heavy, Flyover Light

Which Places Benefit Most from State and Local Tax Deductions?

Itemized Deductions for State and Local Taxes per Return, 2014



TAX FOUNDATION

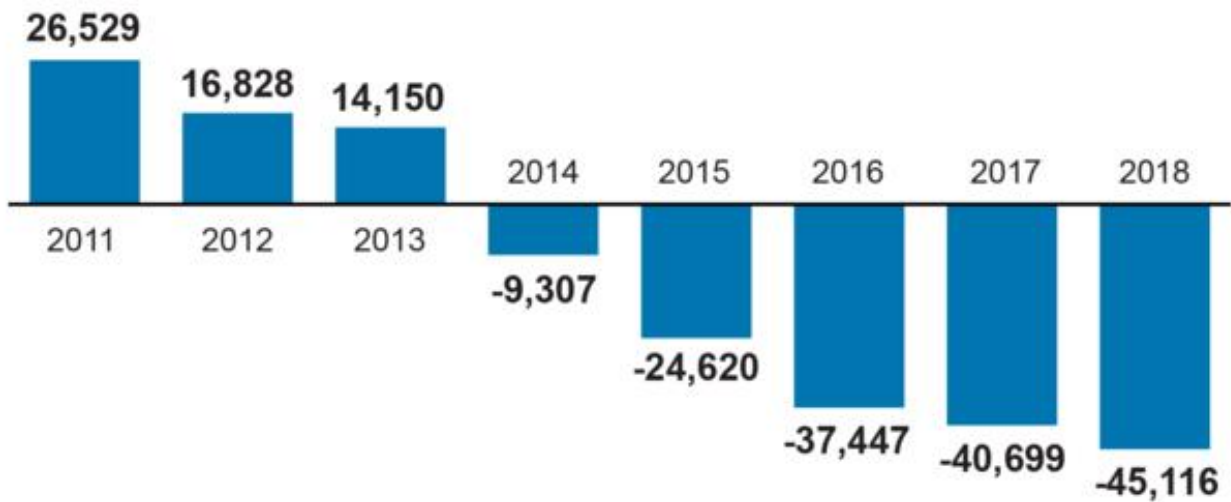
@TaxFoundation

Source: The Tax Foundation

The situation is so bad in the Land of Lincoln it has a name, the “Illinois Exodus”. Credit rating agency Moody’s went so far earlier this year as to warn Governor J.B Pritzker that raising taxes could accelerate the flight of the monied, leading to an even more destabilize tax base. Or as fellow Governor Mario Cuomo of New York said recently, “Tax the rich! Tax the rich! Tax the rich!’ We did. Now, God forbid, the rich leave.”

“Exodus, Movement of My People”

Change of population in Illinois by year



Sources: U.S. Census Bureau

@ChiTribGraphics

Source: The Chicago Tribune

In California, with a completely disabled Republican presence in the State House, it's a downhill run for the Democrats to raise taxes. With the introduction of SB378 we have a new race leader in State Senator Scott Wiener (D-SF). The ballot measure that will be sent to voters in 2020 would have 40% of an estates value over \$3.5 million for an individual, and \$7 million for a married couple, and taken away for re-distribution to the poor and low-income population. Wiener's words, not ours.

Mr. Wiener



Source: The American Spectator

If all this has you ready to back up the U-Haul and hit the road, not so fast. If you are going to do it, you best be all-in as state tax collectors know the appeal of claiming a new out of state domicile without really pulling up stakes, and they are getting even more aggressive. So much so, that with roughly 100% certainty if you are a high earner and bail on New York and head to Florida, you *will* get a residency audit. *Bloomberg* provided an almost surreal account of the proof needed by residents who came under question or were sued by their former state of residence. They include...

- InterActiveCorps newly appointed CEO, Greg Blatt, got out of a huge New York tax bill by convincing a judge that Dallas was his new home because that's where his elderly dog was living out the sunset of his life.
- Pizza mogul Gene Bicknell had to leave \$42 million to the State of Kansas, because a judge ruled he hadn't made a big enough move to Florida. The evidence against him included starring in a musical in his home state and keeping his cat "Checkers" in a residence outside of the Sunshine State.
- Former USC and Carolina Panther wide receiver Keyshawn Johnson, was accused by the State of California of owing back taxes due to the fact he didn't sever his ties enough. One of their pieces of evidence was a quote

from his autobiography, *Just Give me the Damn Ball!!* In it he wrote, “Everybody needs a break. To me that meant getting my butt to Los Angeles.” The State lost the case.

- Real estate developer Thomas Campanillo, tried to convince New York that he didn’t owe them the proceeds on the sale of his \$5 million property because he kept his “teddy bears” in Florida. They included two classic guitars, a professional espresso machine, his degree certificate, and a 1988 Ferrari. He lost and had to cough up \$500,000.

While there are all kinds of laws that say a state can come after you at in terms of where you get your income, here are the basic things TaxBird recommends you do if you want to claim a new state of residency, in this case Florida. The counsel from a good friend, and ace estate planning attorney, was that if you planned on switching flags start establishing these now and build up the proof before anything gets officially filed.

It’s Not Just ‘Teddy Bears’

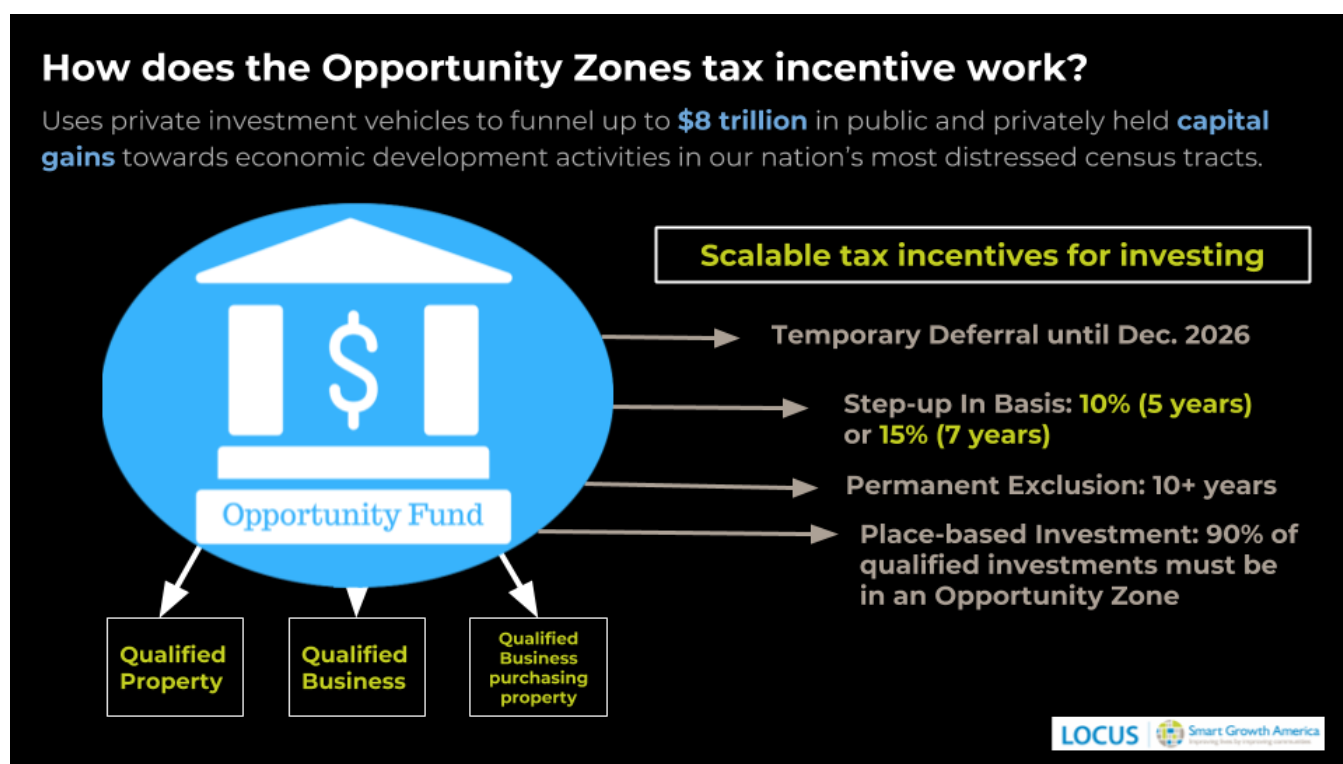
<u>Key Factors</u>	<u>Additional Support</u>
<ul style="list-style-type: none"><input type="checkbox"/> Rent or own a Florida home<input type="checkbox"/> Declare your Florida domicile<input type="checkbox"/> Obtain a Florida driver’s license or ID<input type="checkbox"/> Update your car insurance to FL<input type="checkbox"/> Register your car with the DMV<input type="checkbox"/> Register to vote in Florida<input type="checkbox"/> File a Florida Homestead Exemption<input type="checkbox"/> Spend your time in Florida<input type="checkbox"/> Track your days in each state<input type="checkbox"/> Change your address on all accounts	<ul style="list-style-type: none"><input type="checkbox"/> Get involved with your community<input type="checkbox"/> Vote in the elections<input type="checkbox"/> Find Florida doctors, lawyers, accountants, dentists, and other professionals<input type="checkbox"/> Update your estate plan<input type="checkbox"/> Move your security deposit box<input type="checkbox"/> Donate to Florida charities

Source: TaxBird

Opportunity Zones – Part One

You can't very well go to any investor conference these days without a panel discussion, or several panel discussions, about Opportunity Zones. They are, in short, tough places where you can invest your money that help re-vitalize and develop areas and also offer beneficial tax sheltering. Which is also a long way of saying, instead of taking the tax hit on a big gain, you invest in an O-Zone and can get out of paying a decent piece of it and make money on your new investment. All while putting money to work in an area that needs it.

What a Deal



Source: Smart Growth America

O-Zones were created with the Tax Cuts and Jobs Act of 2017, but the story goes back father than that. The genesis of the idea goes back a decade when the billionaire founder of Napster, and one-time CEO of Facebook, Sean Fanning, was working on a UN malaria project in Tanzania. Similar to other worthwhile projects, there was no effective way to get big money behind it to make it all work.

At the time, Sean was sitting on a mountain of big money with a low tax basis, and he wasn't the only one. He and his well-heeled and connected technology

brethren, were worth trillions that was locked in and wasn't going to see the light of day unless something drastic happened. Enter the idea of the Opportunity Zone, and Sean Fanning its champion. *Forbes* did a great job chronicling how Fanning saw this idea through, and how it became a reality.

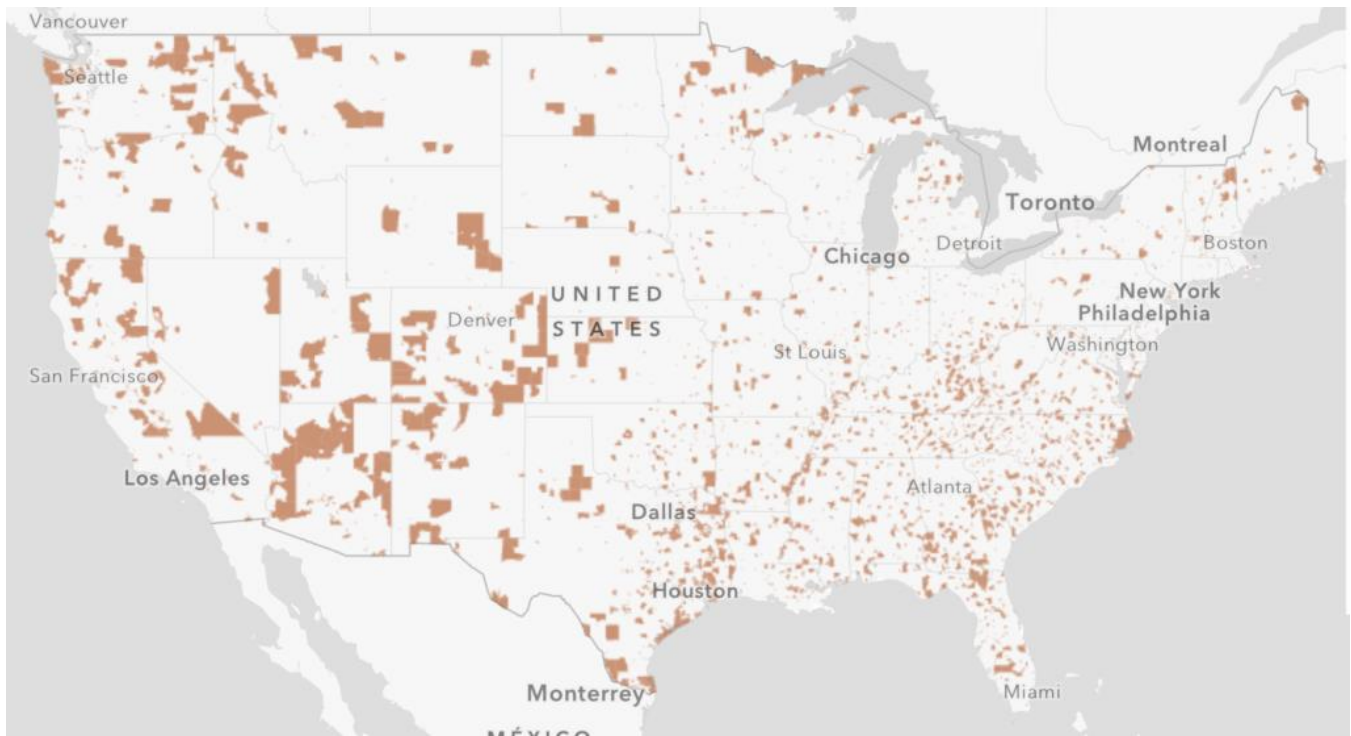
Senator Tim Scott & Sean Fanning



Source: Forbes

Fanning's Economic Innovation Group put together an interactive map, showing down to the parcel level every economic zone that the Treasury Department had designated as so last year.

Opportunity Zones



Source: The Economic Innovation Group

Because the topic is so big, and we can only put so much into each weekly installment of *This Week in the Markets*, we are going to continue the discussion next week on how to invest in Opportunity Zones. In the meantime, here are three places you can look to get an even deeper understating of OZs, how they were designated as such, and who is looking to make money from them. [Forbes](#) has “What you need to know about opportunity zones”. [Tax Policy Center](#) has a synopsis as well. And finally, CNBC give you the ‘[skinny](#)’ on why not all OZs are created equal.

Long Island City Opportunity Zone



Source: New York Times

Markets

Only one chart for you this week on the markets, but what a chart it is. The beauty below shows you what the MSCI World index would have returned, sans the Fang 6, over the past 16 months. It also shows how the combination of Facebook, Apple, Amazon, Netflix, and Google would have done as their own mini-index. The results are astonishing.

Over the period, the modified MSCI would have been flat, only having roundtripped an up 10% move in the spring, and one down 10% late in the year. The Fang 6 on the other hand, went up 30% through September, declined 30% going into year end 2018, and then rallied again by 35%. Remember that time we said the markets were going to get a lot more volatile going forward? You're welcome.

FAANG-A-Palooza



Source: Bloomberg

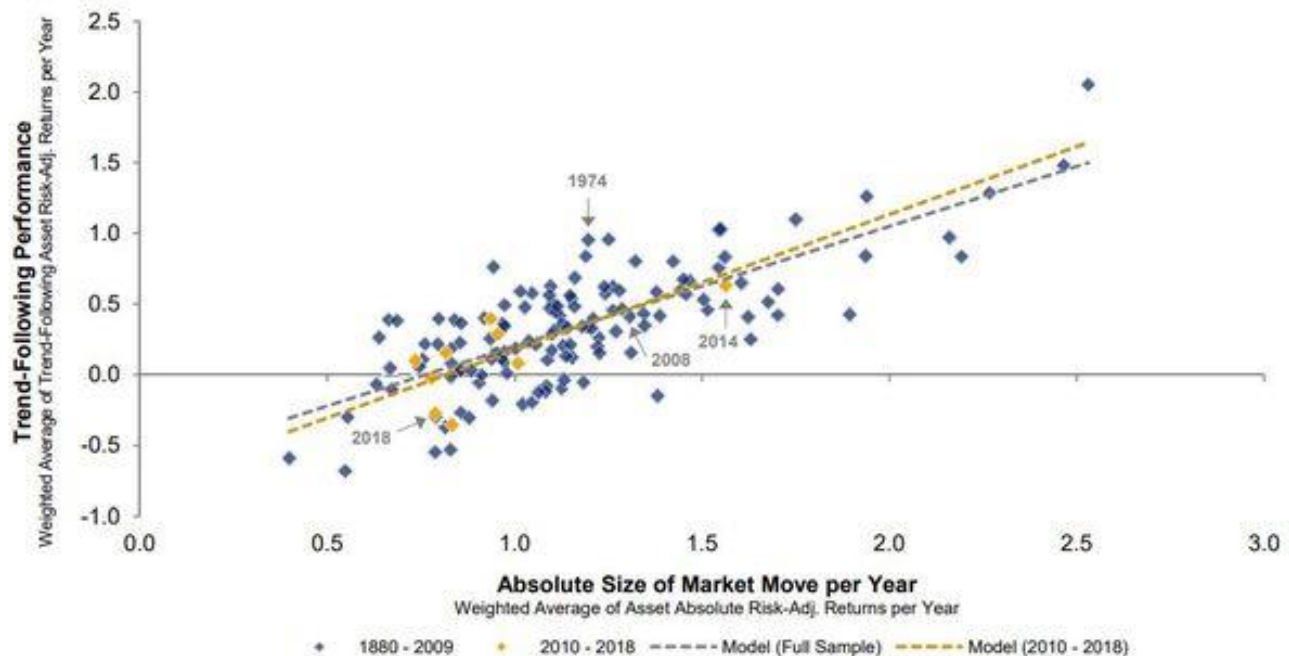
Hedge Funds

Our favorite quant manager, and all-around good guy, Cliff Asness is being forced to come to grips with a new reality of a tougher market for what he does. That's because his firm AQR, is partially owned by publicly traded Affiliated Managers Group, and the firm has to provide its financials for all the world to see. Turns out 2018 had 37% less to see than the prior year. The decrease in net income was attributed to fewer assets and fees, coupled with higher headcount and bonus obligations.

The very transparent Asness laid out the reasons for the quant's struggles late last year in an essay posted on the AQR website. In it he laid much of the blame on the liquid alts side of the ledger. On the flip side, he sees momentum coming back into vogue as a factor. One that will most certainly benefit trend-following managers.

No Bueno for Certain Quants

Exhibit 3: Large market moves have been scarce in recent years
Hypothetical Trend-Following Performance vs. Size of Market Moves per Year
 January 1, 1880 – December 31, 2018



Source: AQR. For each asset in each year, the absolute risk-adjusted return is calculated as the absolute value of the annual excess return divided by the realized volatility of the asset in that year. Risk-adjusted returns shown above represent the weighted average for each calendar year. Risk-adjusted returns are weighted by the trend-following risk taken in each market in each year. The 3-Month T-Bill is the risk-free rate used to derive the risk-adjusted returns. This analysis is provided for illustrative purposes only and is not based on an actual portfolio AQR manages. Please read performance disclosures in the Disclaimers for a description of the investment universe and the allocation methodology used to construct the trend-following strategy. Hypothetical data has inherent limitations, some of which are disclosed in the Disclaimers.

Source: Bloomberg

Institutional Investor rolled out its annual ‘rich list’ and on it was the top-10 earners in the hedge fund world, the least of which took home \$390 million in 2018. Quants and macro strategy managers dominated the list, with only Chase Coleman coming in from the long/short equity category. We don’t think he cared though, as \$460 million is \$460 million.

Hedge Fund Masters



Source: Institutional Investor

Not on the list this year was Point72's Steve Cohen, who returned 1% last year for clients in his \$5 billion dollar outside investor fund. Those returns were pedestrian at best for a guy who averaged 30% annualized returns when he ran money under the banner of SAC Capital.

Having been put in the penalty box by the SEC for two years, Stevie is back at it, looking to raise another billion by September. For better or worse, the hedge fund industry is better with him in it than out of it. He also owns one of Damien Hirst's cooler pieces, a shark in formaldehyde.

The Physical Improbability of....



Source: Art Fix Daily

Diversions

Avengers: Endgame made the biggest splash in global box office biggest splash history when on its debut weekend took in \$1.2 billion worldwide. That's billion with a big old "B". Robert Downey Jr., who plays Tony Stark, is reported to be taking home a cool \$50 million paycheck for his role.

That's is a long way from where he was 18 years ago, and can only be considered one of Hollywood's greatest 'rise from the ashes' stories of all time. After all, there is only one way to go when your reality is that Sean Penn flies you to rehab on his jet, you last only 24 hours, and then wind up wearing an orange jump suit. We salute you RDJ, though we still think your snub as Best Supporting Actor for your portrayal of Sargent Lincoln Osiris was borderline criminal.

"Be the Dude, That is the Dude"



Source: Killing Time

Speaking of 'borderline criminal', next Sunday is Mother's Day, and if you forget it there is some form of house arrest waiting for you. With that, Stillwater gives you five ideas that will get you over the line and help you show her how much the family loves and appreciates her just the way she is. Starting with the basics...

- 1) A card. Any card. Any homemade, store bought, hand written, or embossed card. Put a little time and love into it, have the kids sign it with scribbly handwriting and little hearts, and you are well on your way to making her day. Bonus points for flowers.
- 2) Jammies, slippers, or a robe, or any combination thereof. She will use them at least every week, and most likely every day. Which in her mind will make each day Mother's Day all over again. Go super plush on the robe, and Ugg on the slippers.

Now moving on to the more exotic...

- 3) Every woman deserves one good pair of cowgirl boots. Like a really good pair. Justin, Tony Lama, or Stetson will all get the job done. That said, there is nothing quite like a pair of Lucchese Boots. Done right, they can be more art than attire. If you want to make a trip out of it, take her to the factory in El Paso. One of our favorite country singers, Eric Church, gives you a look into what you can expect.

Lucchese Boots



Source: *Architect of Record*

- 4) This next one can cut either way. If the mother of the house likes to cook, and the process that gets you there, consider giving her one of the classics, or something new that *will* someday be one. If the only thing she makes is reservations, make her one of those instead. From the 'soon to be classic', go with Eric Ripert's '32 Yolks' or Jonathan Waxman's 'Great American Cook'. If neither of those work, pick up a copy of Julia Child's classic 'Mastering the Art of French Cooking'. Bonus points for picking a recipe and trying it out on her with the kids running sous chef duties.

And now the big one...

- 5) While a picture tells a thousand words, she probably already has one. So, this year, upgrade your effort with a painted portrait from Portraits Inc, www.portraitsinc.com. They have done everything from politicians, business leaders, professionals, and events. When all is said and done, we are sure they will include the faces.

Wedding > Funerals



Source: Portraits Inc.