

## ***The Economy***

Some pictures say quite a bit with very little, and this is no exception. Jay-Money is the pusher, and Wall Street the junkie. Just remember, nobody checks into rehab on a winning streak.

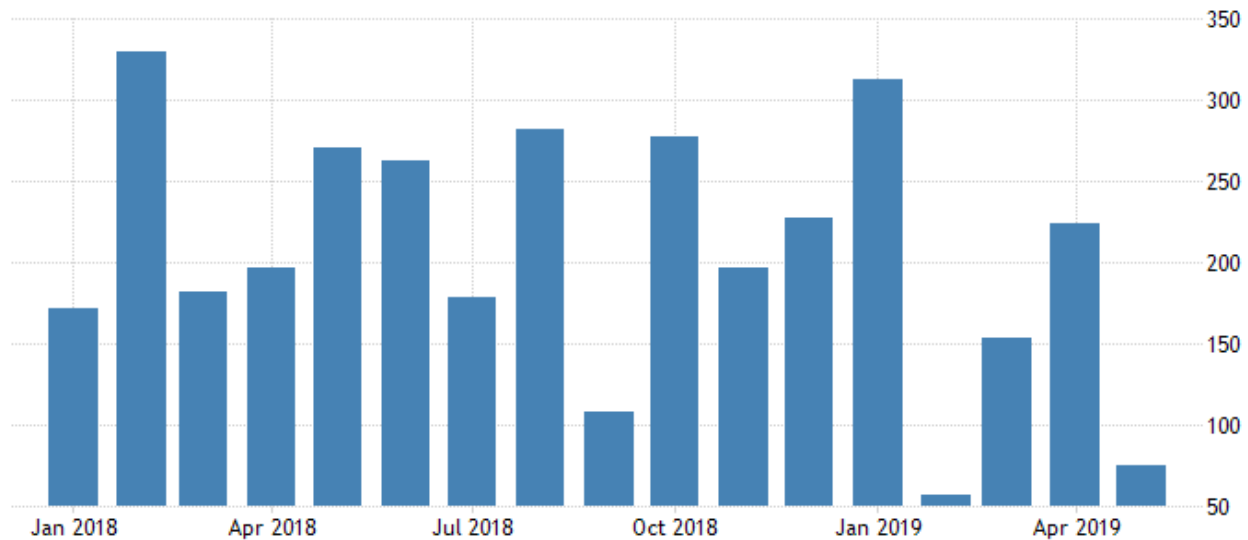
First One Is Free



Source: The Atlantic

The May employment report released last week, was exactly what the bulls on Wall Street were looking for when they got a meager 75,000 new jobs, against expectations of 250,000. For now, bad news is good news. And if you are having trouble making sense of it all, you're not alone.

Jobs Soften in May

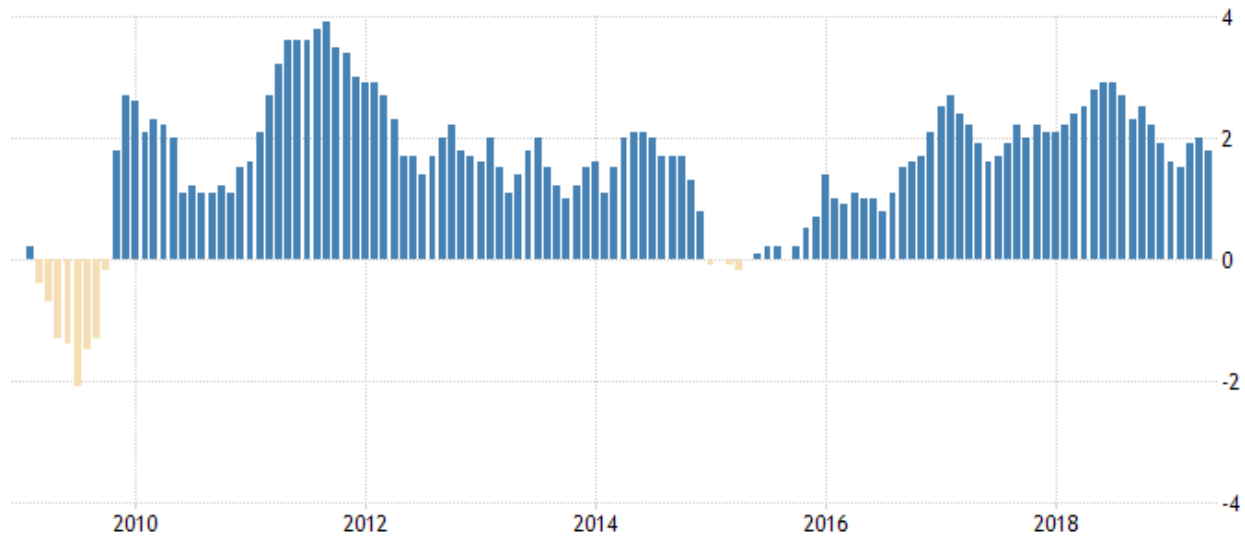


SOURCE: TRADINGECONOMICS.COM | U.S. BUREAU OF LABOR STATISTICS

Core inflation was released on Wednesday, and while Wall Street expected a 1.9% increase, it got 1.8%. We would say it was a yawner, except for the fact that as long as inflation remains this subdued, the Fed has the green light to loosen rates whenever it likes. And that's where the excitement really begins.

Just ask trading legend Paul Tudor Jones, who counseled investors to heed the rate cut rule book and get long the market. Aside from the 2011-2012 period, inflation has averaged slightly less than 2%, confounding those who believe an economy that has been running strong would naturally lead to price increases, especially in the wage category.

Inflation, Where Art Thou?



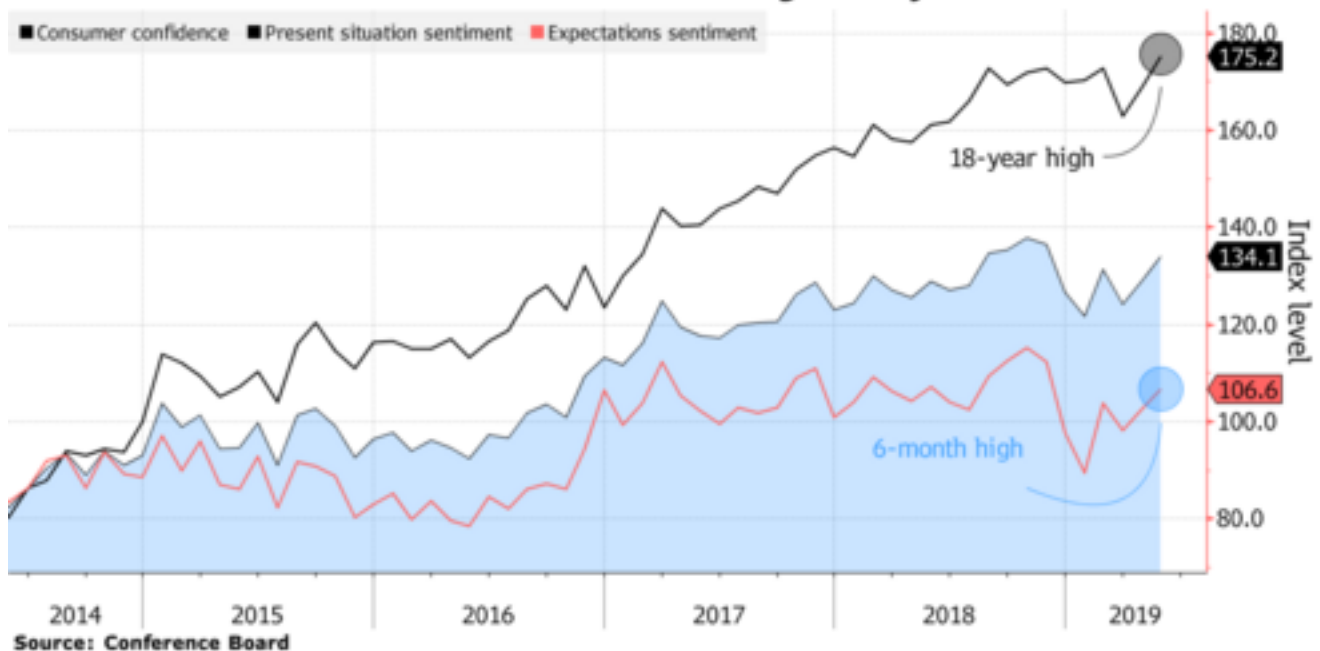
SOURCE: TRADINGECONOMICS.COM | U.S. BUREAU OF LABOR STATISTICS

The June University of Michigan survey of consumer sentiment was released Friday, and the reading softened from the prior month. The biggest reason for the decline? Respondents said that worries over the impact of tariffs was the number one cause for the increased concern. Keep in mind, this is just one of many surveys measuring consumer confidence and others tell a far more bullish tale.

Good Times, Good Times!

## Confidence Rising

**U.S. consumer confidence climbed to six-month high in May**





The U of M survey has always been interesting from the perspective that a sample size of 500 is relatively small. This isn't to say the numbers aren't directionally accurate. We simply have never fully understood how it stays as market moving as it currently is. That said, we like the team colors and classic helmets. Go Blue!

Hail to the Victors...

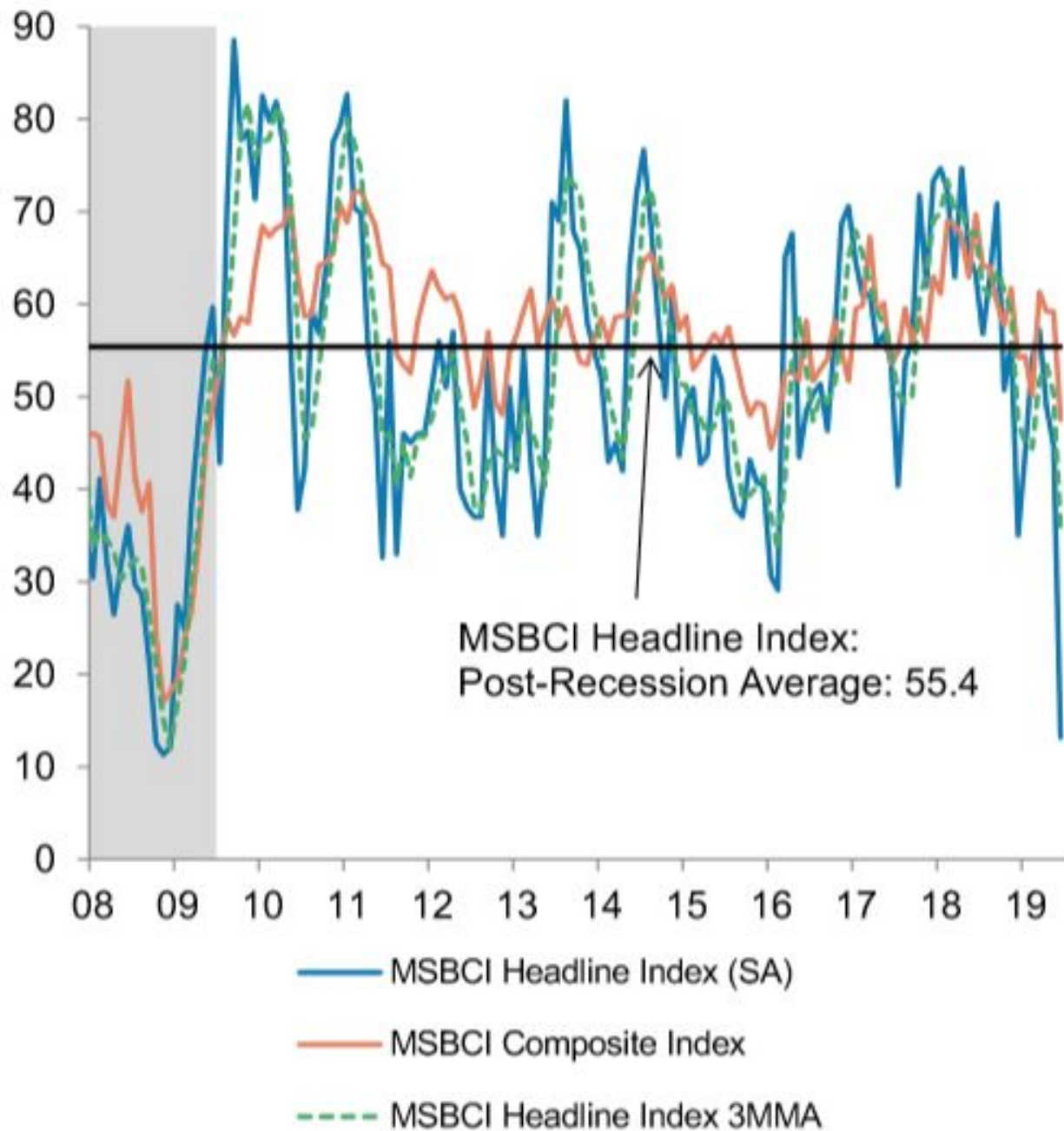


Source: The Spun

One of the economic indicators used most by Morgan Stanley to get a pulse on the economy just tanked more than it has in a decade. The Business Conditions index measures the economy through a combination of unemployment data and the reading on capital expenditures. The indicator tends to be volatile, therefore no single drop should be too alarming. That being said, there is growing evidence that we may be at an inflection point. One that Jerome Powell sees and is ready to counter with a lower Fed funds rate.

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**Exhibit 1: MSBCI and the MSBCI Composite: Recent Performance**



Source: Morgan Stanley Research

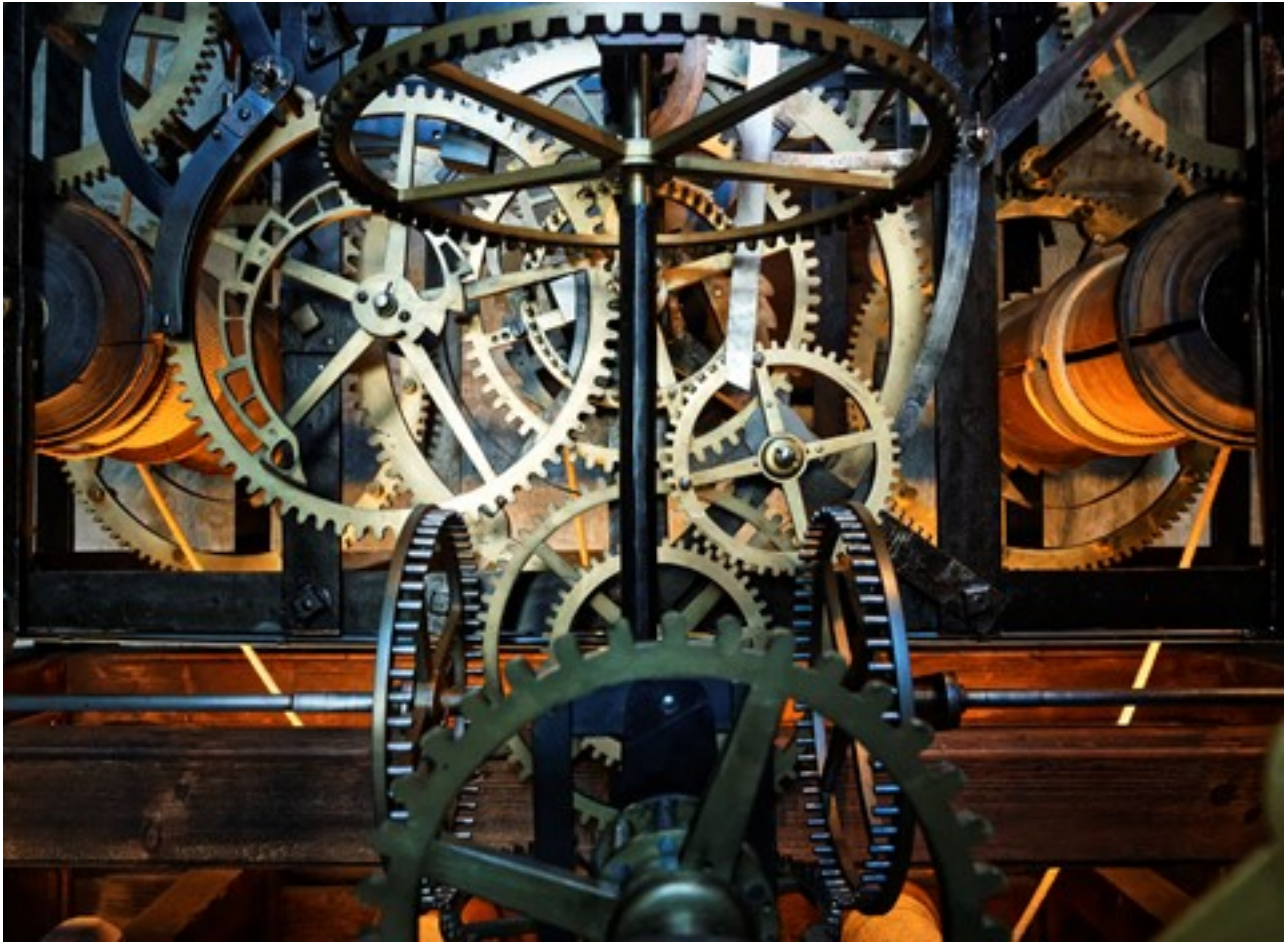
## ***The Markets***

Stepping back and putting the pieces together, this is a rare moment for markets as there are more gears at work than usual. Some pair really well together, others poorly. With the



machine running at such high RPM right now, and the engineers pouring grease in the machine, the chances of it to continue to work are on the high side. That said, all we need is for one of them to fly off, and the whole mechanism comes apart, at least until the Fed comes in to pick up the pieces...once again.

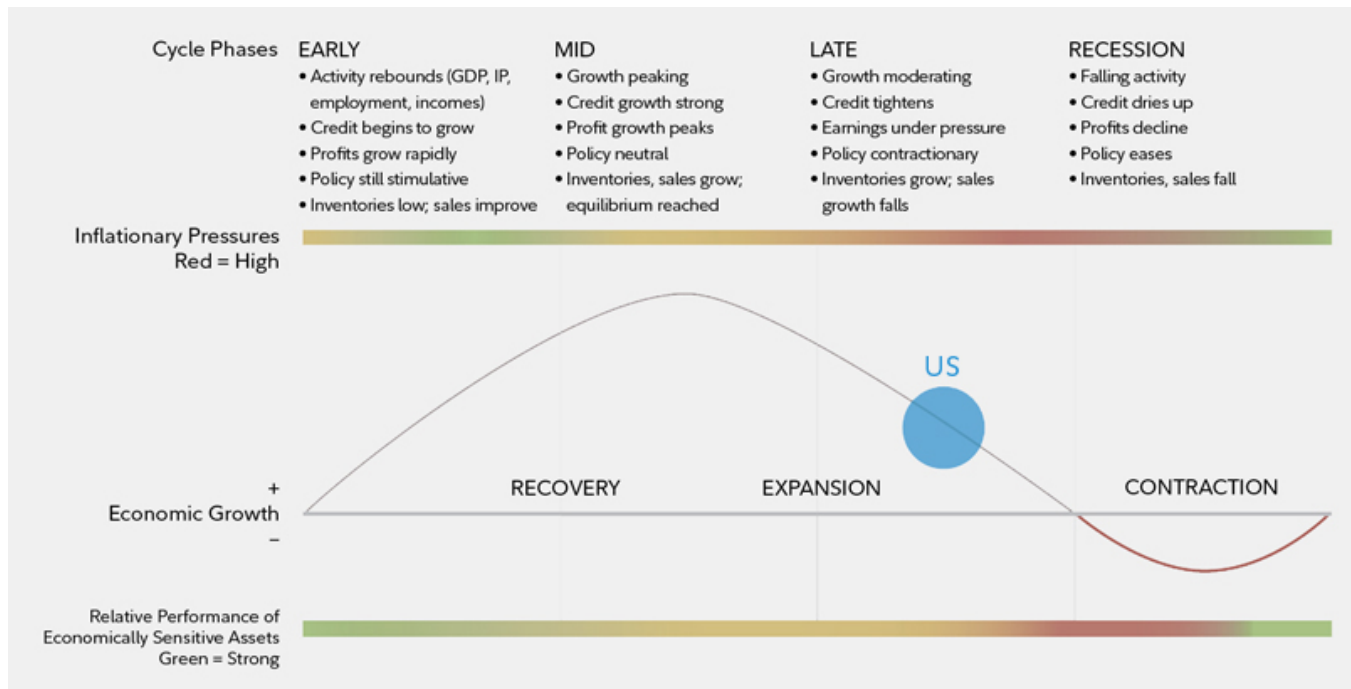
## Highly Geared



Source: YouTube

One of the legends of Wall Street, and a particularly good distressed investor, Howard Marks published another one of his ever-thoughtful memos. This one entitled *This Time It's Different*. In it he lays out the nine things he's heard recently that have him worried that both Wall Street and Main Street are beginning to think the economic and business cycles have been repealed.

Where Are We?



Source: Fidelity Investments

Most of us who have been in the business for a while know that's not the case. We also know that billionaire Howard Marks has been around long enough, has seen this movie several times, and therefore knows a couple of things. The list of things he's heard that embrace the theme of 'this time it's different' include...

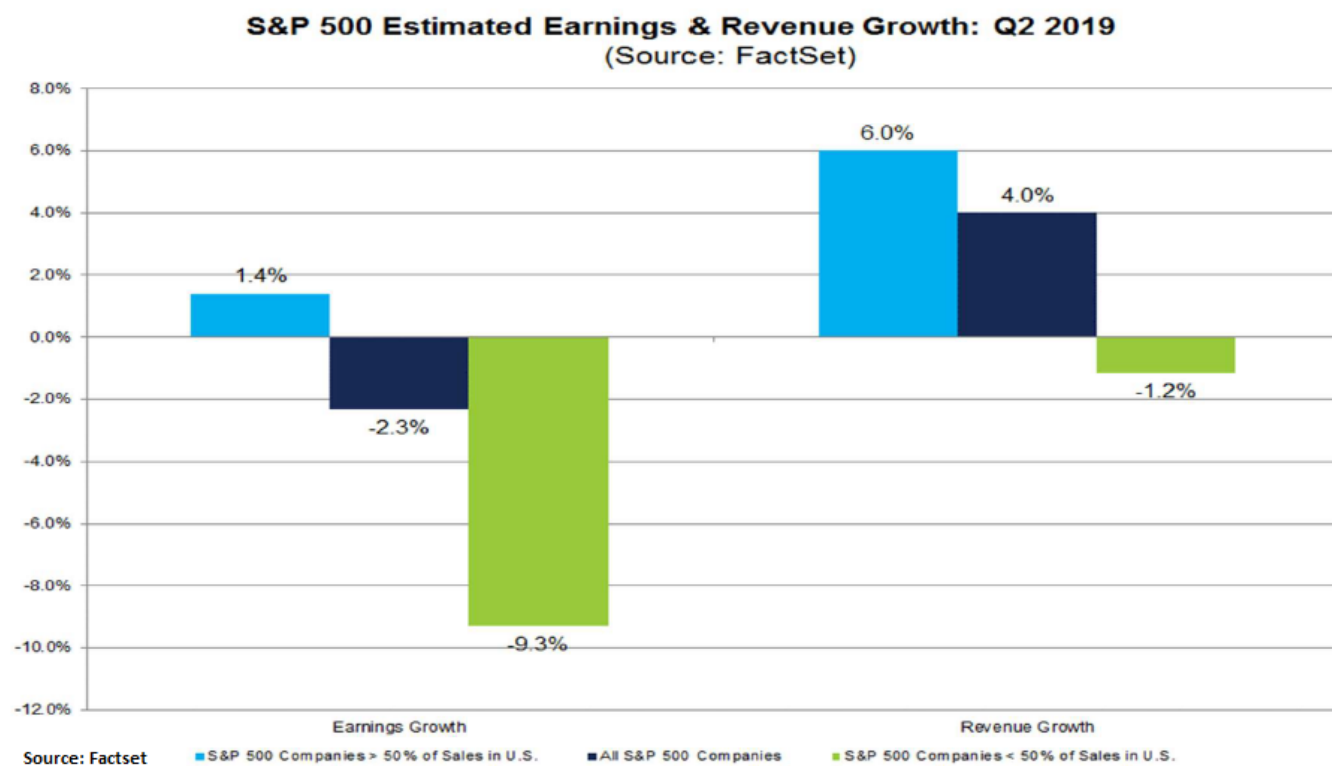
1. There doesn't have to be a recession.
2. Continuous quantitative easing can lead to permanent prosperity.
3. Federal deficits can grow substantially larger without becoming problematic.
4. National debt isn't worrisome.
5. We can have economic strength without inflation.
6. Interest rates can remain "lower for longer."
7. The inverted yield curve needn't have negative implications.
8. Companies and stocks can thrive even in the absence of profits.
9. Growth investing can continue to outperform value investing in perpetuity.

## Companies & Industries

If you are a company that has more than 50% of sales outside the United States, then you have an earnings problem, at least according to FactSet. Some of the bigger victims so far have been VF Corp, Take-Two Interactive, and Noble Energy. Others in the mix include Apple, Boeing, and Intel, all which have lagged the market recently.

As a side note, even if your company has a domestic earnings tilt, you are still only looking at 1.6% growth in the second quarter. This is by no means gangbusters for a market within view of an all-time high. For those into this type of research, and you can count us among them, we highly recommend signing up for the FactSet's monthly piece entitled Earnings Insight.

### Tariffs Have Teeth



Tesla recently opened a Tesla Supercharger station in the California Central Valley town of Kettleman City. Brian Logan, a writer for *Business Insider*, took a swing up the 5 from Hawthorne, giving readers a look inside the experience.



Having been in a Tesla, yet never driven one, it was an interesting virtual trip that explains the charging, and re-charging, experience. The *BI* writer also provides a granular description of the station itself. The facility, with a coffee bar and lounge, is a far cry from the old crusty Burger King that used to sit on the land.

“Tesla Latte for Dave. Dave, Tesla Latte”



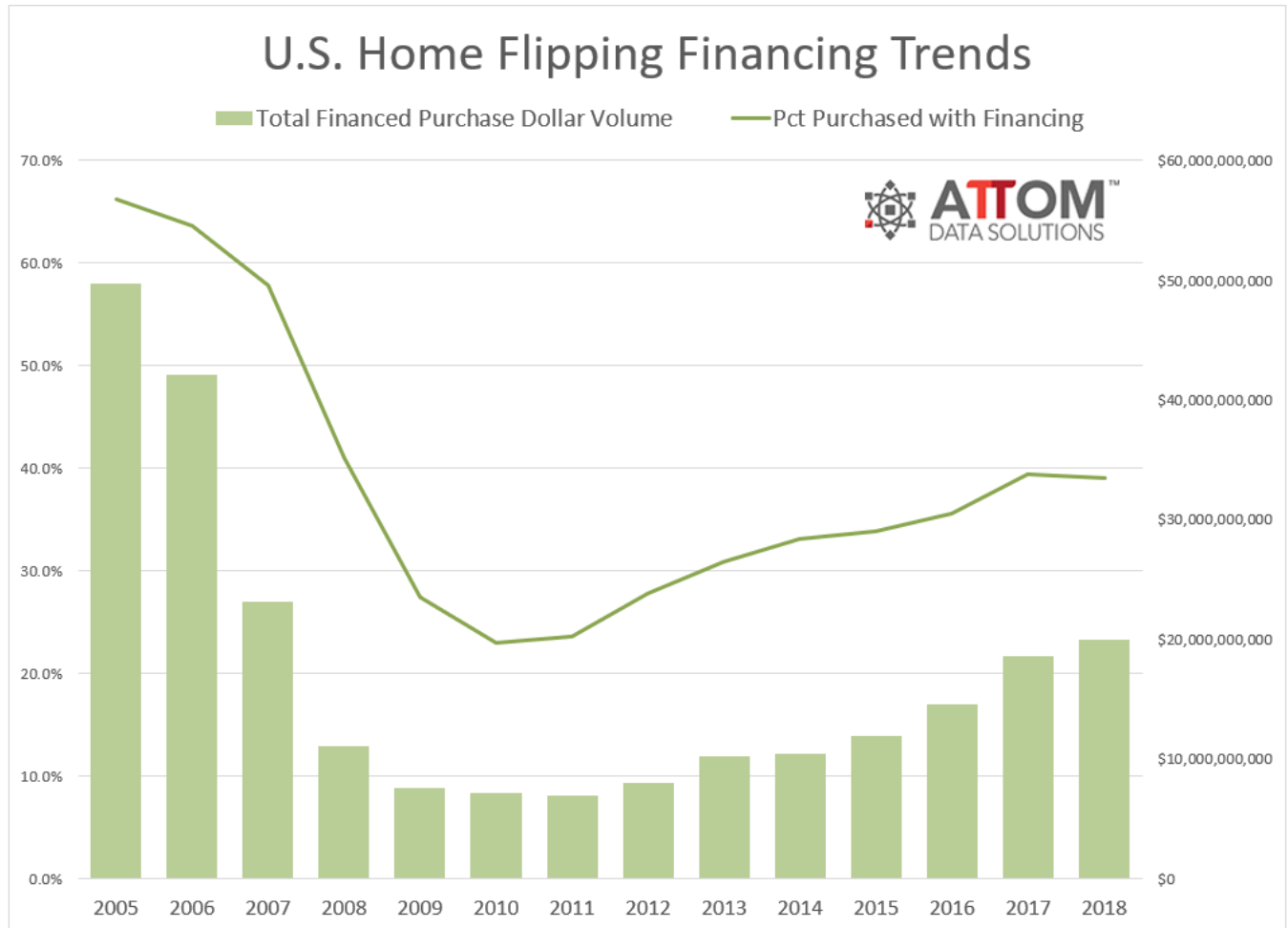
Source: Reddit

In news that is worrisome to some observers, present company included, the market for loans used to finance the flipping of houses has ballooned lately. Buyout firm KKR recently doubled down to the tune of \$250 million dollars into Toorak Capital Partners, a firm square in the middle of the mix.

As a buyer of high yielding short-term loans, Toorak is a source of liquidity for a market that in the past has shown a propensity to draw in capital and reach for yield at the wrong time in

the cycle. All that said, when done right, flipping can be a very lucrative business. For those interested, we counsel you to read the *World Property Journal's* [analysis of trends](#) in the market.

## Mo' Money



## Politics

While we rarely venture into the world of politics, this week we made a discovery that lifted our spirits and gave us hope, and we felt it should be passed along. Full disclosure, I swore off Fox News and MSNBC a long time ago, and I feel way better for it. Given the current pool of entrants for 2020, this is great non-partisan humor, at a time when much is needed.

## America Love It or Leave It



Source: Amazon.com

***The 2019 United States Open***

Pebble Beach Golf Links





Source: Images Sur

While the U.S. Open is always special, this year is even more so. The host, Pebble Beach, is celebrating its 100<sup>th</sup> birthday this year. The Golf Channel wished it one back in February. When it opened in 1919, green fees were \$2.00 for men, and \$1.50 for the ladies. If you want take in the history of the course, watch 'Pebble Beach: The official golf history'. It was put together by Neal Hotteling, and made the airways on public access TV in Monterey in 2010. Good luck finding that kind of depth of coverage anywhere else on Wall Street. For that we humbly say, you're welcome.

The Iconic Seventh...Then and Now





Source: The Pebble Beach Company

Phil Mickelson has a special connection to Pebble Beach, as that is where his grandfather caddied when the course first opened. Al Santos was the son of a Portuguese immigrant who fished the rich waters of the Monterey Bay. He also had a sense about what makes a man. For years Al would carry a silver dollar in his shoe, saying that as long as you had just one, you would never be poor.

Phil carries his grandfather's coin with him, using it to mark his ball. This weekend he will carry it around the same course his grandfather did a century ago. If he pulls off the win, Phil will secure the career grand slam, winning all four majors. And if the idea of doing so on his grandfather old track doesn't give you goose bumps, you should probably check your pulse.

Phil & Al



Source: Golf Magazine

The USGA was nice enough to provide what they consider to be the five best shots in the history of the U.S. Opens that have been hosted at Pebble. The chip-in by Tom Watson on the 17<sup>th</sup> in 1982 to setup his win was the undisputed winner.

“What can you say...”



Source: Golf.com



A slightly lesser known spot, just around the corner from the Lodge at Pebble Beach, is another icon, this time of the surfing world. The name of the break is 'Ghost Tree', which comes from the wispy limbed, bleached white cypress tree that sits on the bluff above it. Much like Super Tubes in Malibu, this rare wave gets big, fast, and dangerous in a hurry. On this day, it was more about the tree than the swell.

## Ghost Tree



Source: The Pebble Beach Company