

## The Economy

Presidents Trump and Xi drop the global trade puck on Saturday, and the world economy hangs in the balance. Morgan Stanley's CEO, James Gorman, said what most other observers think as well, that a trade war would have a 'devastating effect on the global economy.' He added that the U.S. is in a relatively good place, though the Federal Reserve isn't exactly in the best position.

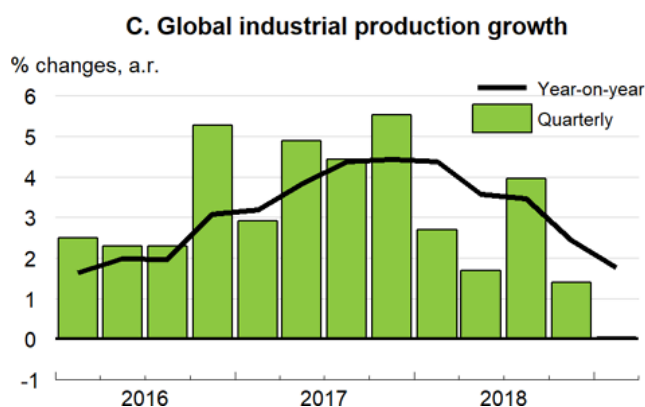
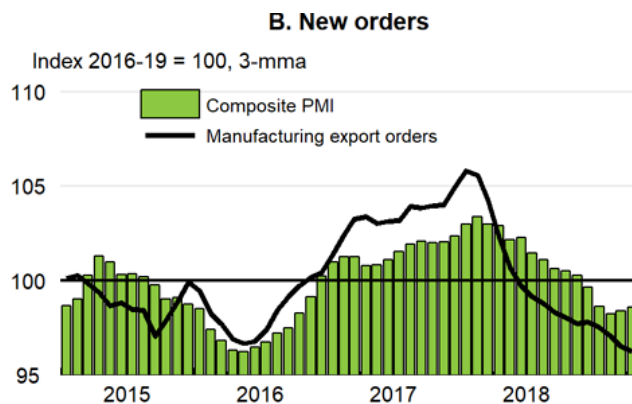
Good Luck, Jerome



Source: BankRate

His counsel to Powell & Company, 'be aggressive on raising rates, and cautious on cutting them'. The idea being, keep some of that dry powder for when you really need it. The OECD had a slightly more aggressive take when it ran with the editorial line 'A fragile global economy needs urgent cooperative action' in a May report explaining what ails us. Apologies in advance for their electric green color palate. Doesn't everyone know that blue and white make the best charts?

Too Soon?



Source: OECD

The bacchanal taking place in the Bizarro World Ballroom continued this week as every economic reading that hit the tape came in on the light side of consensus, pushing back last call at the Keep the Dream Alive Bar by at least another hour or two. Want proof? European stocks just posted their best quarter in 21 years, the Dow Jones Industrial Average the best June since 1939, and S&P 500 since 1955. Bottom line, if you own Beta, and that Beta didn't do well in the first half of 2019, you don't have very good Beta. Beta being straight, un-hedged, long only exposure to the markets, domestic or otherwise.

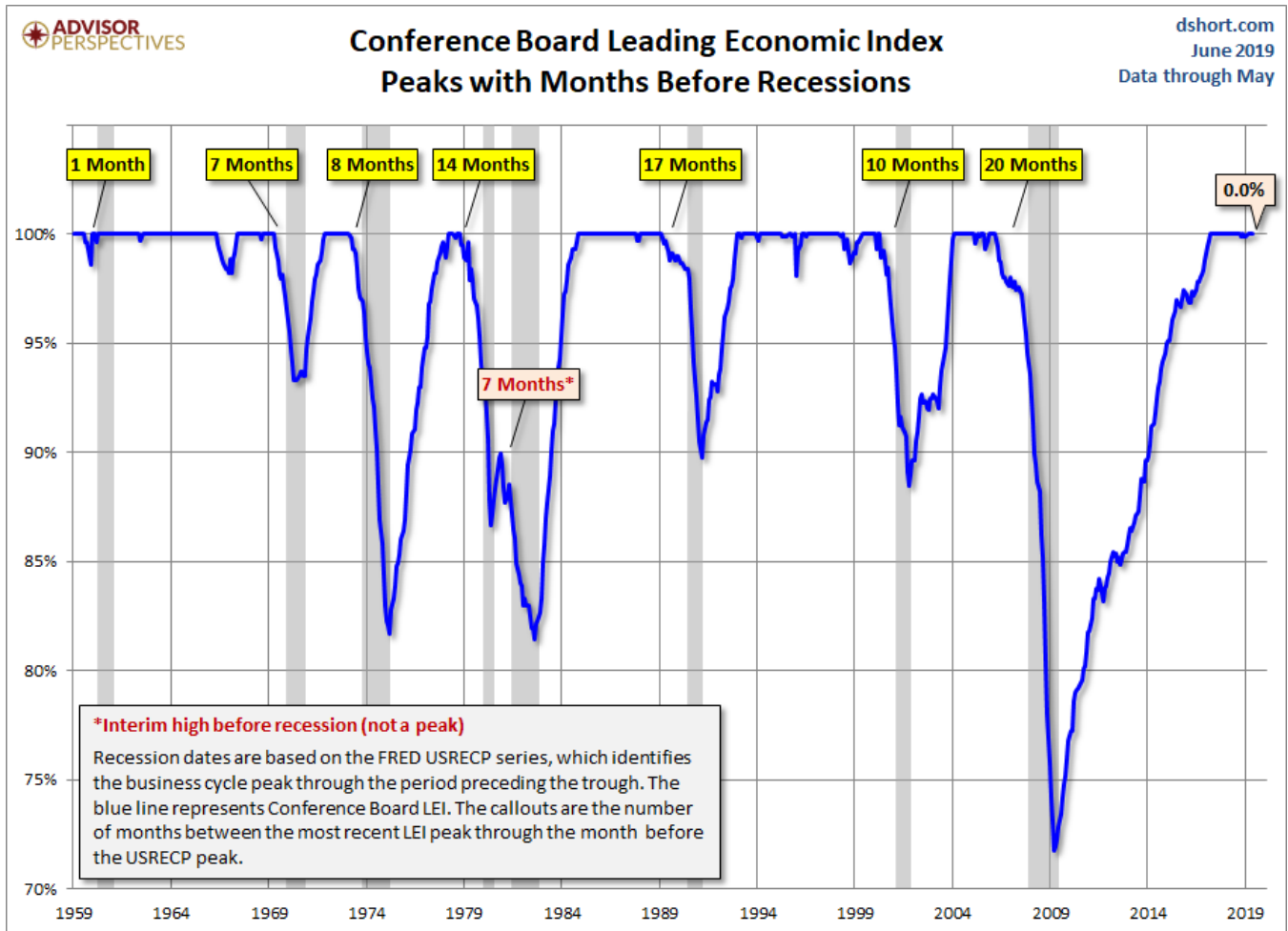
Party On!



Source: The Business Journals

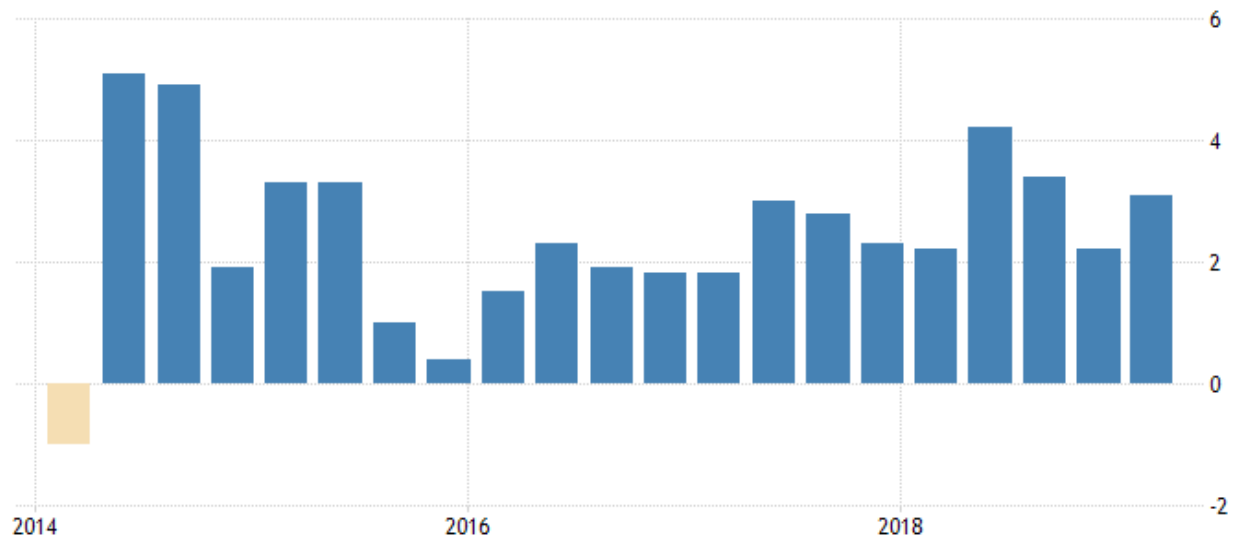
Let's get the photo tour of why central bankers are about to start dumping Tito's into the global growth punch bowl starting with the Conference Board's monthly reading of consumer confidence. When it printed at a twenty one month low, the market breathed a sigh of relief. When LEI peaks, a recession is anywhere from half a year, to a year and a half away. But Powell and Draghi are going to prevent that from happening, so let's buy some more risk assets!

LEI



The final revision to GDP for the first quarter was released on Thursday and in this case, there was little to surprise us. The final print stayed true to the 3.1% growth previously reported. Strength was led by defense spending, while weakness was seen in consumer spending. At 0.9%, this was the weakest in four quarters. All-and-all, the growth rate continues to average around 3.0% for the last two years. A step-up from the sub 1% seen in the two quarters prior to Trump being sworn in. Say what you will about his style, or lack thereof, this was an economy that wasn't looking great when he was elected.

GDP

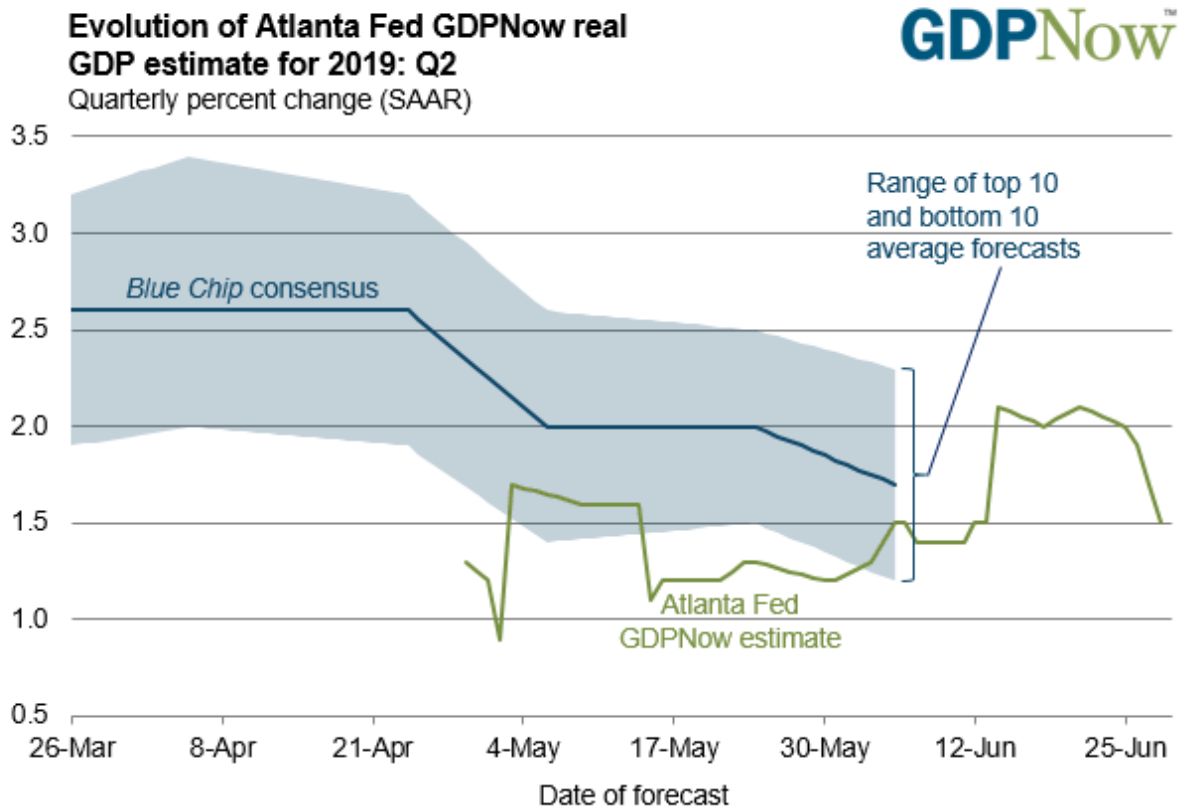


SOURCE: TRADINGECONOMICS.COM | U.S. BUREAU OF ECONOMIC ANALYSIS

With the news of a softer consumer and concern over global trade, the well watched Atlanta Federal Reserve’s GDPNow forecast is starting to slip. This time from 1.9% to 1.5% as of Friday’s reading. Which again in our current world means more central bank activity, which in turn implies a further push into lower grade investments as the animal spirits continue to roam.

GDPNow





## The Markets

*The Wall Street Journal* ran a piece on Tuesday highlighting what a binary world the markets are living in these days. In it they wrote that 25% of the current trading days are what would be considered ‘risk-on, risk-off’, each time driving a basket of assets dramatically up or dramatically down. Other phrases used in the article were ‘wax-on, wax-off’ in deference to the Karate Kid, as well as ‘tweet-on, tweet-off’ in deference to the leader of the free world and the left and right tail events he leaves in his wake.

The Orange Swan



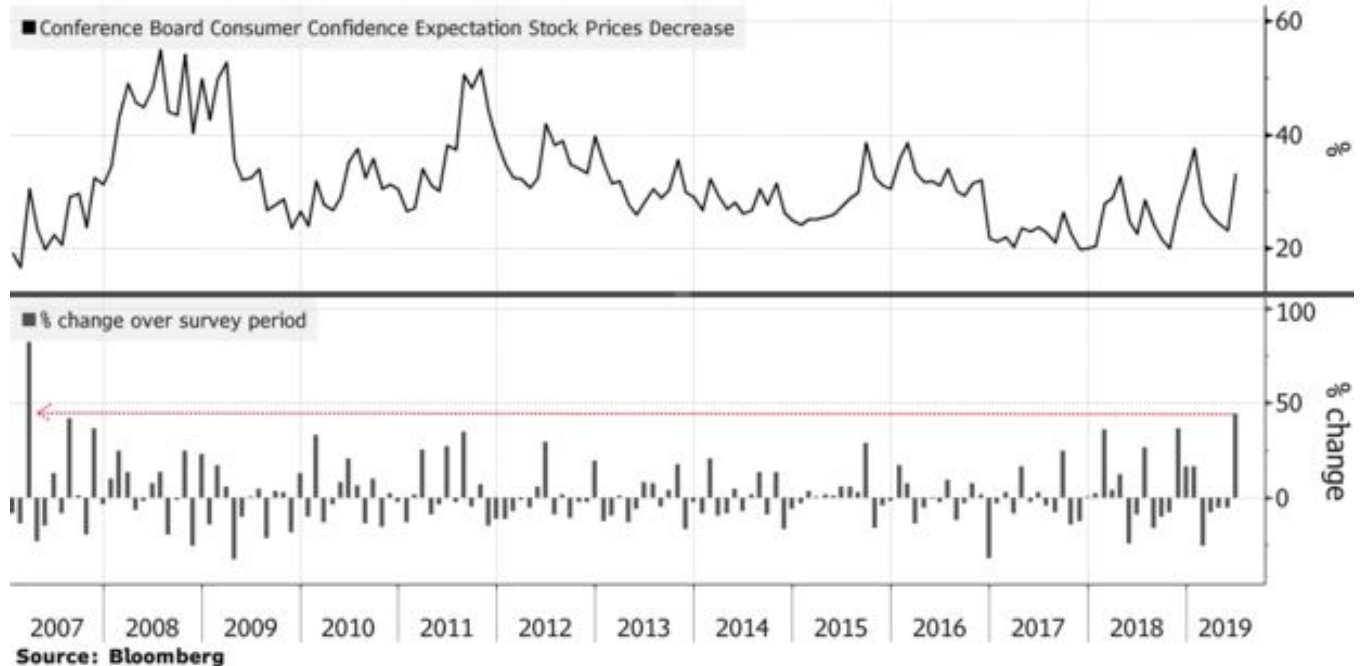
Source: Market Watch

Another week, another chart that shows we are either ready to have a significant move lower, or a contrarian explosion to the upside. It turns out we Americans haven't gotten this bearish, this quickly, since 2007. The market back then still had another twelve good months left in it. That being said, the break higher would prove to be an important inflection point as the Global Financial Crisis was on the doorstep.

Bruins Roam

## Turning Bearish

Share of Americans who think stocks will fall rose at fastest pace since 2007



Don't call it a comeback, Bitcoin was never really gone. This month it proved it by rising 80 percent. You read that correctly, 80 percent in 30 short days. The Winklevoss brothers aren't complaining, they just got rich again. Some of this can be attributed to the animal spirits in other parts of the market, namely equities which haven't had a June that looks this good in 60 years. Another reason for the strength is the abundance of short sellers who are both making money hand over fist, and getting slammed by short squeezes, sometimes on both sides...within three days!

Roundtrip Anyone



## Rise and Fall

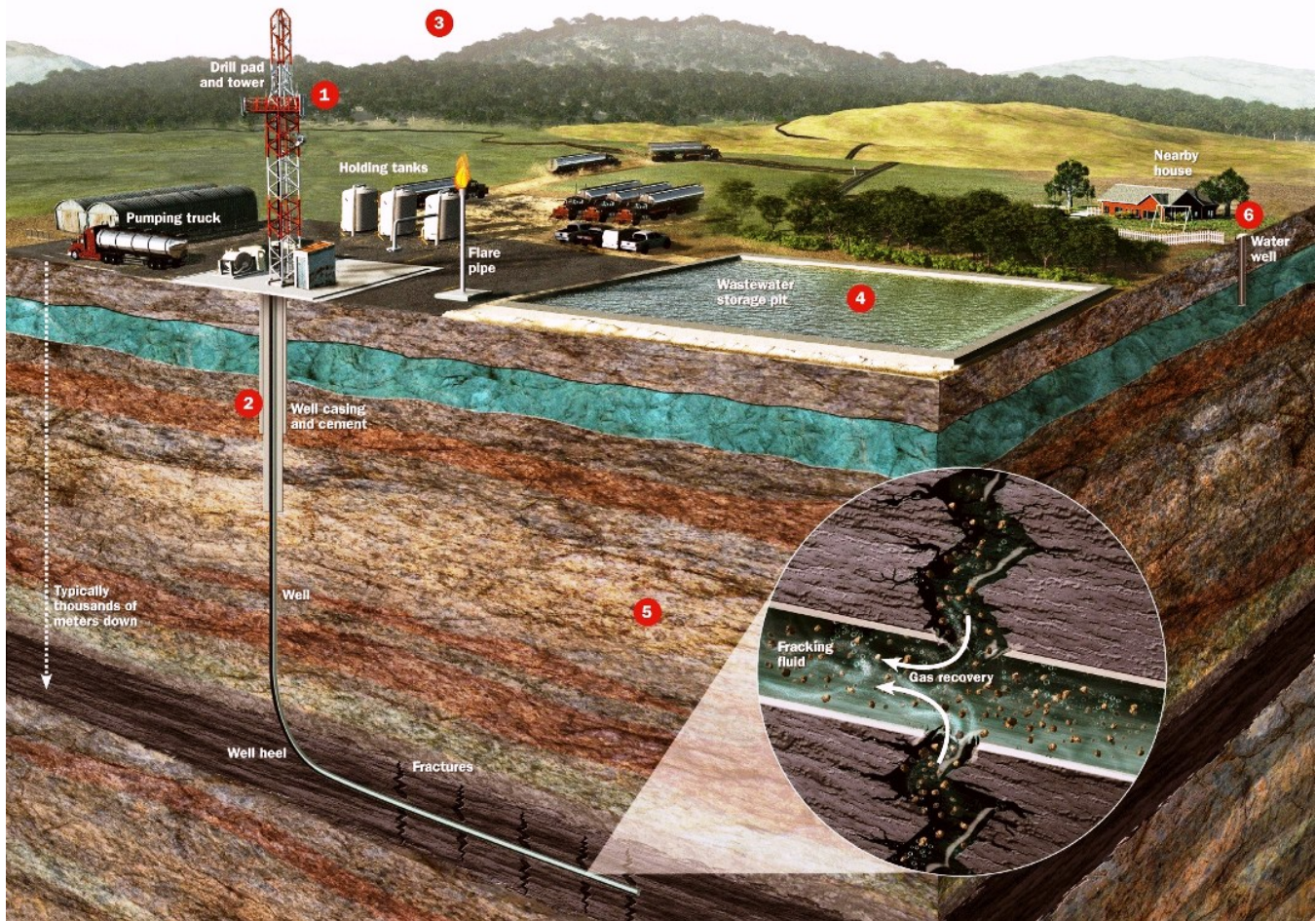
Bitcoin reached close to \$14,000 this week before reversing course



## The Oil Patch

The good reporters at the *Wall Street Journal* did the story justice once again this week when they ran an article on how oil and gas exploration and production companies were forced by Wall Street to change their business plans to actually include making money, not just sucking fermented dinosaurs from the ground at a loss. About ten years ago, a certain analyst who now writes this commentary had a front row seat as the fracking boom played out. I can tell you with great certainty, it was as close to the dot.com bubble as anything you will ever see.

## Pumping Money



Source: Research Gate

A group of investors who handed Jim Hackett, a former Anadarko land man, a \$1 billion blank check to go out and find speculative grade acreage in oil country, are probably wishing they hadn't right about now. The company he founded, Alta Mesa Resources, once had a market capitalization of roughly \$3.8 billion. A series of really unfortunate events including land purchases that proved unproductive, an upside down capital structure, and now an SEC investigation, have the company worth less than \$50 million. Boom and bust in the oil patch, who knew?

Alta Mesa Resources



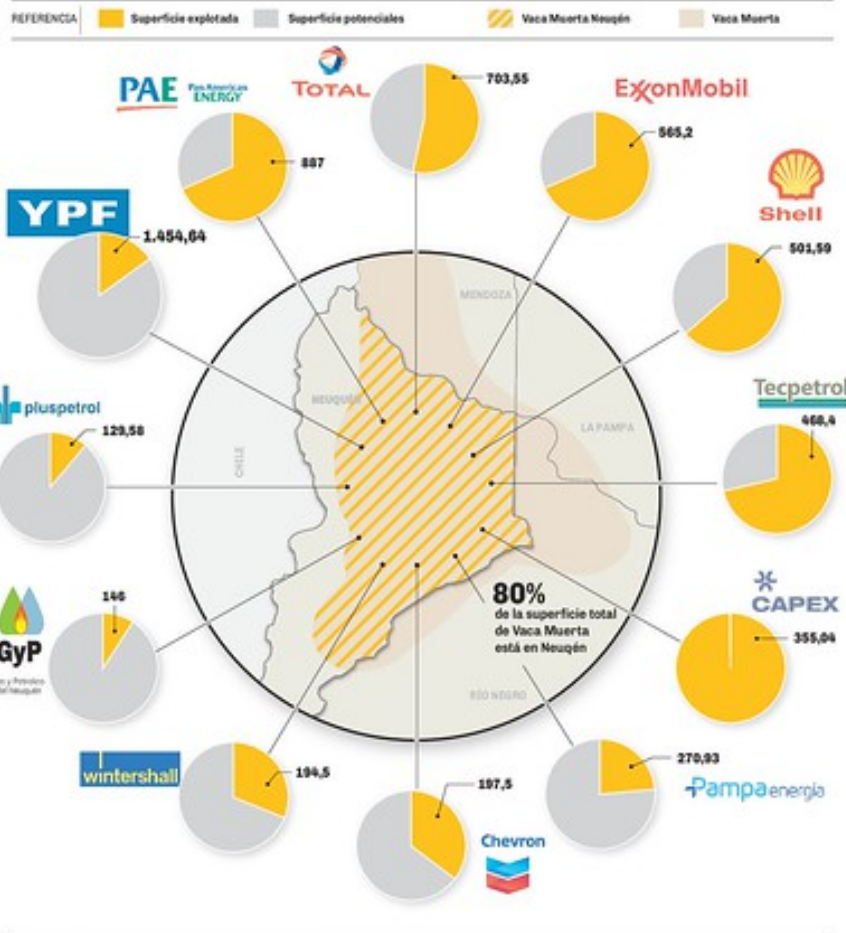
Down south of the border, there lies an oil and natural gas formation that rivals the legend of El Dorado, the ancient city of gold. This one however has a slightly more curious name, Vaca Muereta, or 'dead cow' in Spanish, and the treasure we are talking about is black and gooey. The oil field in question sits on the far edge of Argentina, near Patagonia. And after a century of speculation, it is finally starting to produce. *Bloomberg* provided a look at which global players are involved, and what the risks are in making the dead cow come to life.

## Praying Over the Dead Cow



## Radiografía de Vaca Muerta

EN KILÓMETROS CUADRADOS



\*80% NEUQUÉN Fuente: Ministerio de Energía y Recursos Naturales de Neuquén

Some people play Pebble Beach or host a big dinner party for their birthday. I, on the other hand, enjoyed 36 hours in beautiful Bakersfield, California, the Permian of the west. Because you can take the boy out the oil patch, but you can't take the oil patch out of the boy.

Stops included Merle Haggard's childhood home, a Basque dinner at the Pyrenees Cafe, a close encounter with a Rattlesnake on the porch of the Petroleum Club, sipping an ice-cold Budweiser at the Ethel's Old Corral Café, a stop at the world's biggest oil well blowout at Lakeview, and a visit to Chevron's heavy oil production facility on the Kern River Oil Field. The discovery well where crude was first found 120 years ago was dug to a shallow depth of 70 feet.

Kern Field Discovery Well



Source: California Historical Landmarks

The Kern River Oil Field wound up being the second largest in the State of California. It has over 9,000 wells in operation today and produces 15% of the state's oil production. Once extracted, the crude oil is sold to Royal Dutch Shell and shipped north to Martinez to be refined.

The Kern River Field Today





Source: The Sierra Club

## ***Wealth Management***

In another sign of the white hot times in the registered investment advisor consolidation game, Mercer Advisors announced the pickup of an additional \$500 million through the acquisition of Jackson Financial Management. With the buy, Mercer now manages over \$16 billion nationwide.

This adds to the haul that the company has picked up over the past four years, doubling the asset base over that time. It's rumored that Genstar Capital, the private equity owners who took over from Lovell Minnick in 2014 are looking at something north of a two bagger and more like a full four base trip around the yard. Not bad for a little less than five years' worth of work. Full disclosure, the author did a tour of duty at Mercer and loved every minute of the experience. Good job, boys.

That's Billions, With a B...And An S!

# Mercer's shopping spree

Year	Firms acquired	AUM of acquired firms
2016	3	\$2,265,000,000
2017	8	\$1,138,300,000
2018	8	\$2,621,900,000
2019	3	1,100,000,000
Total	22	\$7,125,200,000

Source: Company data

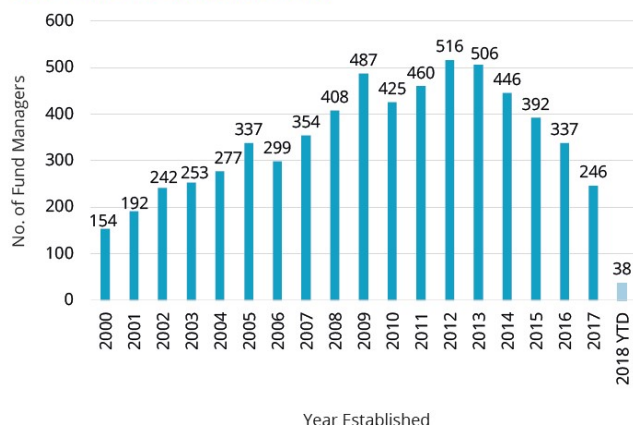
## *Up & Down Wall Street*

Because if you don't kick an industry when its down, when are you going to kick it? We are going to go after the 'fund-of-funds' business...again. For those not in the know, fund-of-hedge-funds are created when an asset manager places wagers on several funds they think will outperform.

In the case of Adamas Partners, it didn't work out so well and now the \$1.7 billion fund is shutting down. What's interesting about this closure is the number of name brand funds they were invested in. They included Baupost, Farallon and Lone Pine, all of which have had a tough run lately. But not as tough as the ever-diminishing cadre of fund-of-funds. While the chart below is a year old, the trend is accurate.

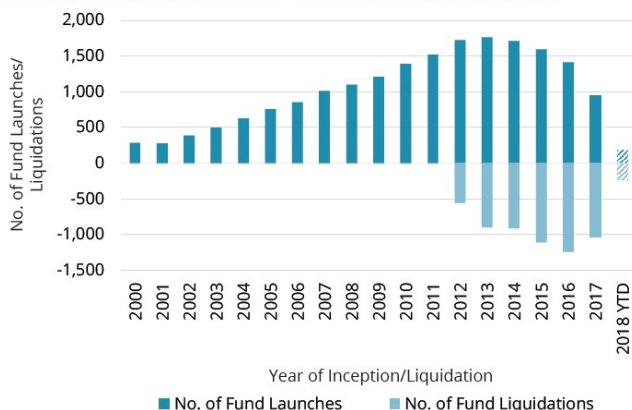
Tough Trade

Fig. 1: Hedge Fund Managers by Year Established, 2000 - 2018 YTD (As at June 2018)



Source: Preqin

Fig. 2: Hedge Fund Launches and Liquidations by Year of Inception/Liquidation, 2000 - 2018 YTD (As at June 2018)



Source: Preqin

Just when you thought we were the world's biggest Debbie Downers; we pass along to you this gem of a piece that chronicles the charmed life of one Chase Coleman. And the abridged version with commentary from the good people at Dealbreaker. Because our industry is under a seemingly daily barrage of self-inflicted wounds, we celebrate when someone can rise above the crowd and prove that there is indeed a good reason to invest in a hedged investment vehicle.

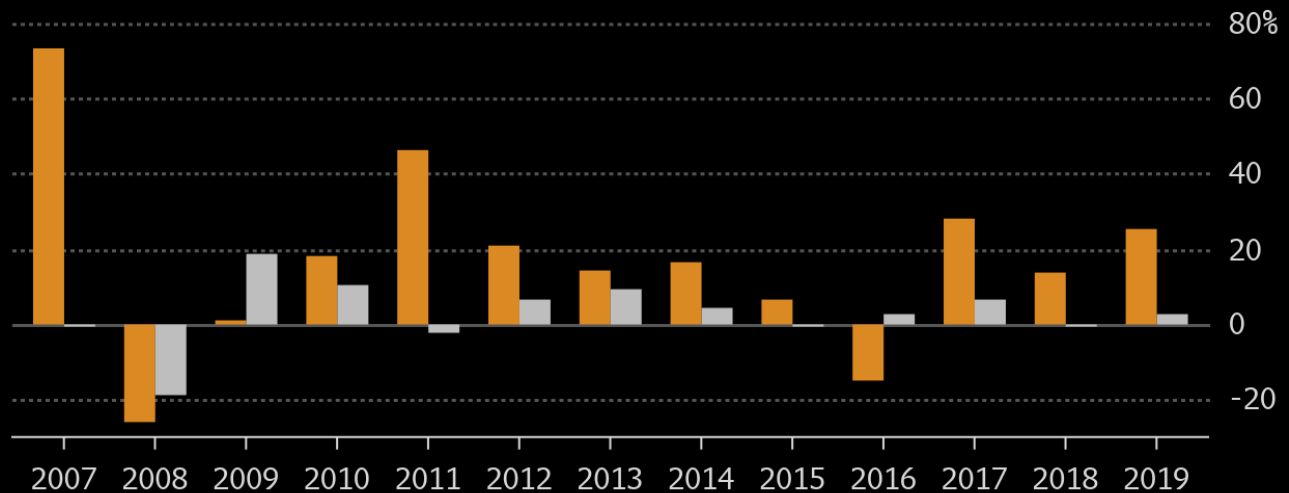
For that we say thank you Chase Coleman, a man born on third base who then managed to circle them all a few more times. The chart below shows his performance against the 'hedge fund industry', which is a little like beating up the little kid in your class, and then claiming to be a world heavyweight champion. That said, he won BIG!

A Pretty(ish) Picture

## Roaring Returns

Chase Coleman's Tiger Global has lost money only twice

■ Tiger Global ■ Hedge Fund Industry



Note: 2019 returns through May; industry data not available for 2007

Sources: Bloomberg reporting, Hedge Fund Research asset-weighted index

**Bloomberg**

## Diversions

America has exported one of the greatest rivalries in sport as the Yankees and Red Sox square off against each other in London on Saturday for a two-game series at Olympic Stadium. Major League Baseball sent out an advance team to ensure that the British are warmed up to the sport before the first pitch. *The Wall Street Journal* ran a preview of the games, highlighting that with the Glastonbury music festival and cricket World Cup going on, London is going to be a busy place this weekend. Fox and ESPN have dual coverage.

## London Stadium





Source: The New York Post

Joe Montana has listed 87 acres of land for sale near the Napa Valley town of Calistoga for \$3.1 million. For that you get a horse barn, an equine workout track, grapes, and a pond. If you come in near the ask, I'm quite sure that the greatest quarterback in NFL history will pose with you and sign the picture as well.

‘A Pool...And A Pond’





Source: The Los Angeles Times

The property sits adjacent to 'Villa Montana', a 500-acre weekend home with a Tuscan on it. That property was originally listed for \$50 million in 2009, and then cut to \$35 million in 2012. The final trade value has yet to be determined.

Joe Cool



Source: Sports Athlete

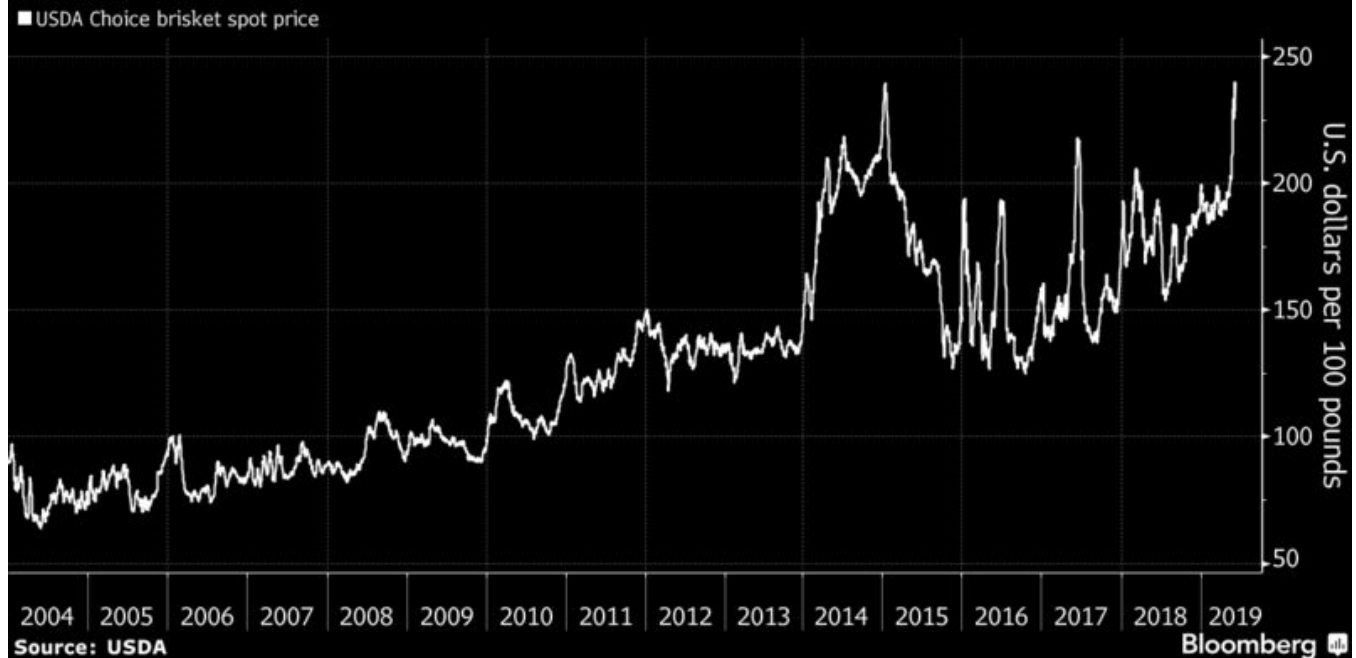
## ***Fourth of July***

Thanks to rise of pellet style smokers, and the popularity of places like Franklin Barbecue in Austin, brisket prices are on the rise, nearing a breakout above the prior high set in the bubble years of 2014-2015. As aficionados of the art of the grill, for us Brisket is to Texas as Tri-tip is to California.

A True Bull Market

## Brisket Binge

The popularity of home barbecuing is lifting prices to records



All that said about brisket prices, on Thursday, we Americans are going to be pulling out every form of barbecue and smoker with reckless abandon, all in the spirit of keeping the tradition of cooking swine, bovine, and fowl over flame alive. If you need help with recipes, Bobby Flay has his, the 'First Lady of Texas barbecue, Tootise Tomanitz, has hers, and pitmaster legend Sam Jones his very own still. If all else fails and you find yourself stuck, shoot us an e-mail and the culinary staff at Stillwater will help you out.

God Bless America





There is a plethora of places to watch fireworks this 4<sup>th</sup> of July. Of the big ones, Boston beats New York as the Macy's event on the East River has run its course. San Francisco is always entertaining as the fog at Chrissy Field can make it touch and go right up to ignition.

### Fog City



Source: Mark Lilly Photography

Of the smaller ones we've seen, the parade in Haley, Idaho is a good one. In our hometown of Montecito, California there is fun Village Fourth, albeit short two block roll down San Ysidro Road. Taking the cake for entertainment though has to be in our other home town of Red Lodge, Montana. Not only does the city throw a great show, but all-night the locals are lawlessly ripping off flaming rounds from their backyard and it truly feels like Fort McHenry all over again.

Fort McHenry, Maryland



Source: Thought Co.

*America, the land of the free and the home of the brave. Happy 4<sup>th</sup> of July everyone.*