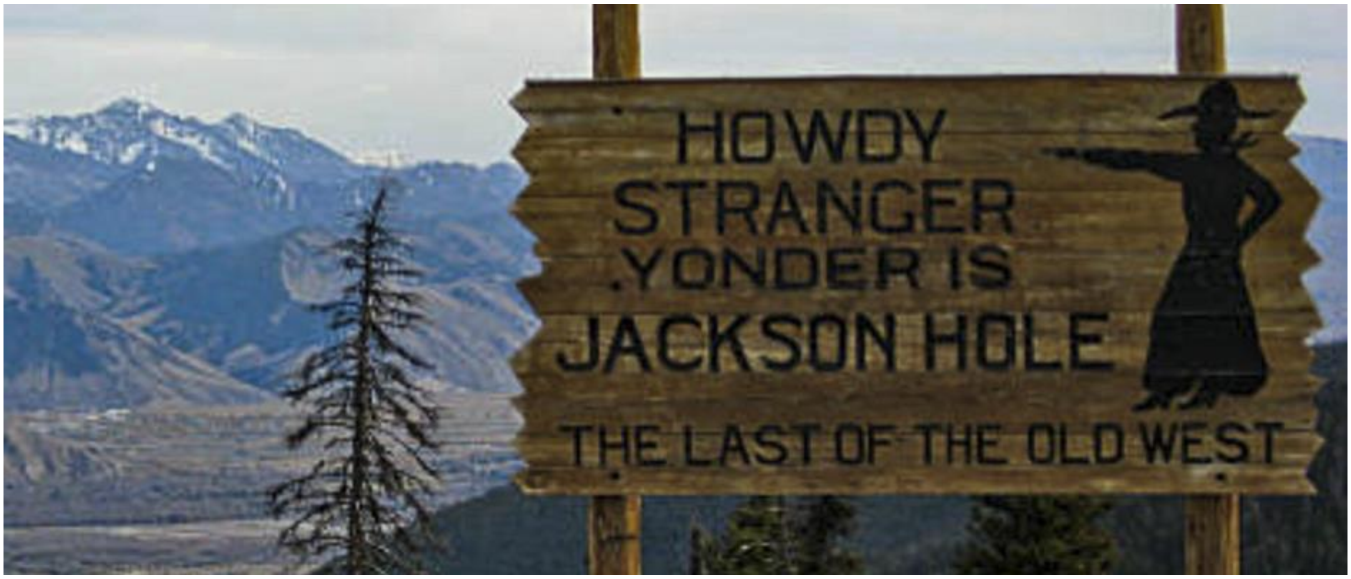
'I'm Going to Jackson…'



With the eyes of the world upon it, the Kansas City Fed convened their late August tradition of gathering the world's central bankers for a high stakes meeting in the shadows of the Teton Mountains. Given the very confusing economic undercurrents and even overcurrents, we suggest that the sign above be re-written to read 'Yonder is stranger. Howdy and welcome to Jackson Hole.'

We don't know what to do with the line about it being 'the last of the old west'. The Million Dollar Cowboy Bar hasn't served a 'cowboy' in some time. These days it's more doctors and lawyers, and such.

Million Dollar Cowboy Bar

Source: Million Dollar Cowboy Bar

The Economy

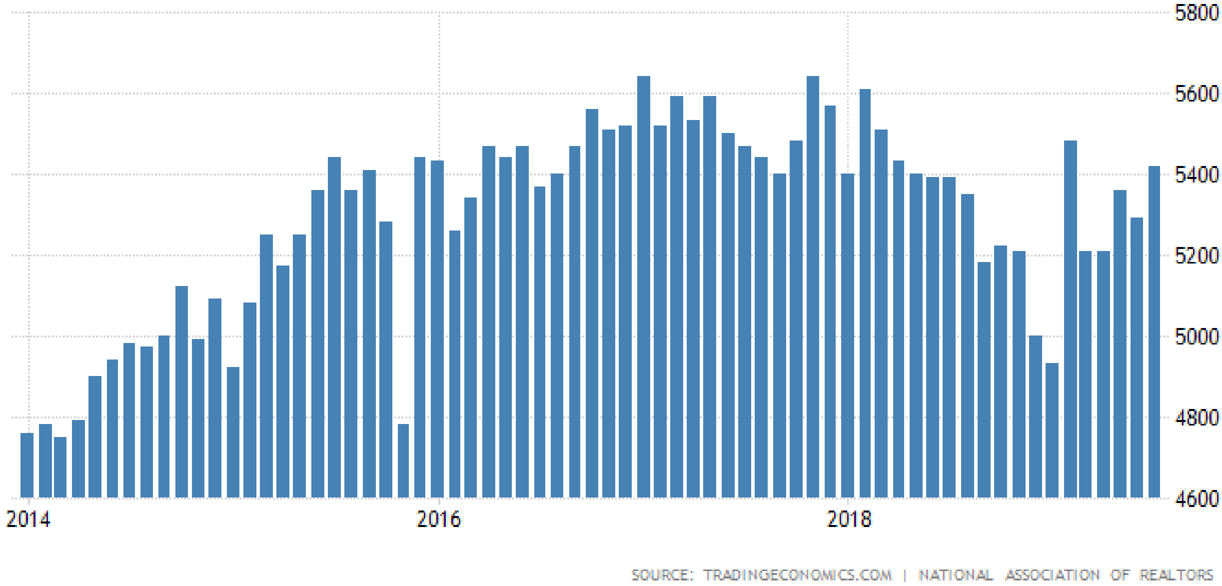
First up, this week's hard numbers worth reporting, and then a recap of the what the show was like inside the Theater of the Absurd. The former doesn't bode well for the economy, the latter bodes well for the market because there is an election on the line, and for the man in charge, nothing says success like the S&P 500 at new highs. Like absolutely nothing, nothing!

'The Chosen One'

Source: Outside the Beltway

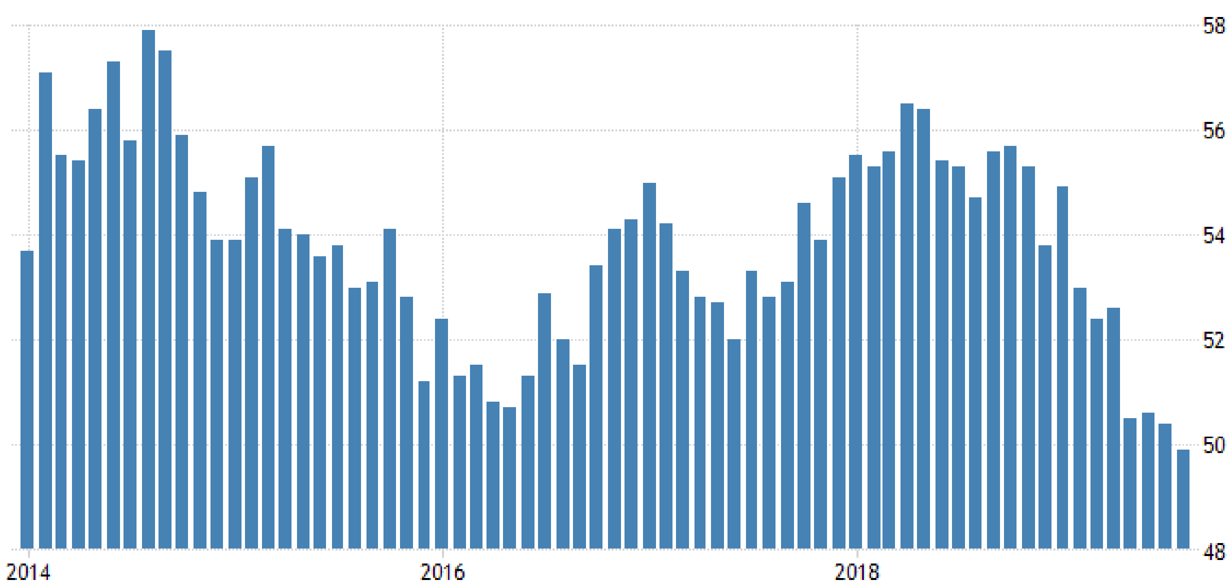
Existing home sales came in about as expected, with a slight 2% increase over the prior month. We suppose the only real surprise here is that the number wasn't a little stronger as mortgage interest rates have fallen though the floor, lifting affordability with it as cheap money is now sloshing around everywhere.

Existing Home Sales



The manufacturing sector in the United States continues to show signs of slowing to stall speed, this time as the closely watched purchasing managers index (PMI) slipped to a 49.9 reading. Anything sub-50 is considered to be a pre-cursor to a contraction. While the overall market doesn't seem to care, by and large, industrials are not partying like its 2018 again.

PMI

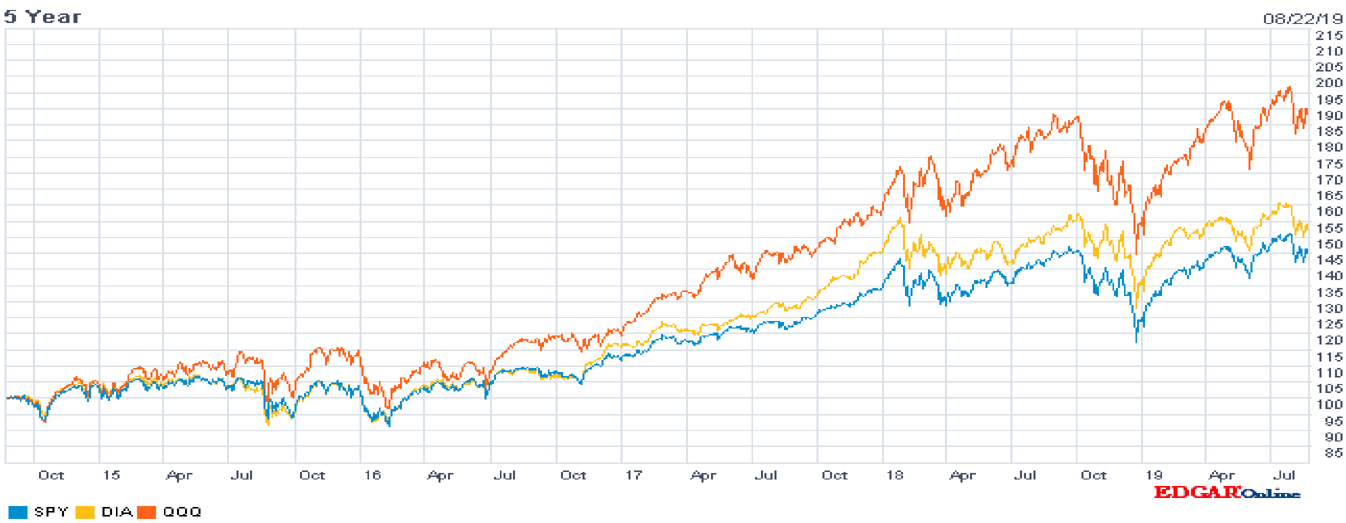


Source: Trading Economics

Now on to the fun stuff. As observers of the markets for twenty-four years, we have never seen anything quite like the show that one Donald J. Trump delivers on a weekly basis to keep the markets high and going higher. This is a non-partisan observation and if Obama and Clinton did the same thing, we would have called them out on it as well.

Last week when the broad markets were down 3%, President Trump started calling around to the CEOs of major banks, 'checking in on them' as it were. Clearly meant to show that he was on the case if markets get unruly, the calls themselves served little purpose. At this point in the game, a down 3% day is a blip on the radar. A radar that shows most indexes at or near all-time highs, and last week's corrective action was barely a blip.

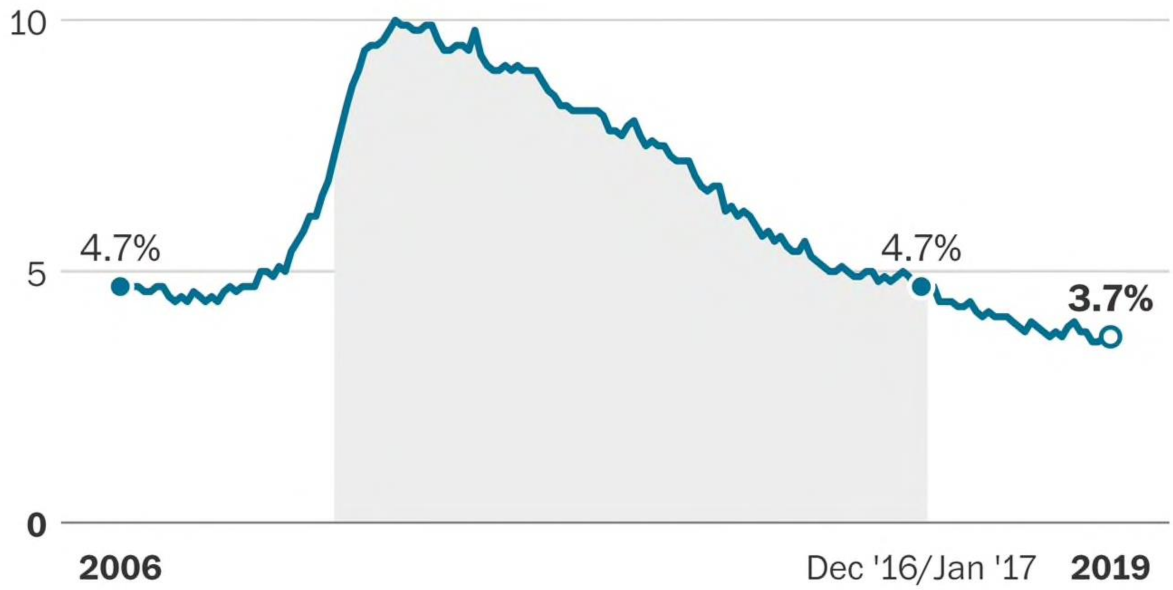
S&P 500, DJIA, Nasdaq



This week, we got back and forth grandstanding about Trump's plans to cut payroll taxes and promises that capital gains tax cuts were next. The President went on to say that he didn't need congresses approval to make this happen. *Business Insider* pointed out that the Artist of the Deal can say anything he wants, but the indicators he is looking at are telling a different story.

If you want to prep for your next Fox News v. MSNBC I'm right you're wrong shouting match, use one of your five free monthly articles from the Washington Post and read 'The Trump v. Obama Economy in 15 Charts'. Here's what you can expect, and let the debate continue.

Obama Era Unemployment



Source: BLS HEATHER LONG/THE WASHINGTON POST

CNBCs Jim Cramer made a very good point, and one that we believe to be true, and that is Trump is willing to push the string as far is it will go on trade, and when it snaps he will either get the rate cuts he wants or blame Fed Chair Powell for his failure to do so. On Friday, after Powell sent the same message he did last month, Trump lit up Twitter with a jab at our top banker, asking 'Who was the bigger enemy, Powell or Xi?' In another epic blast he 'Ordered American companies to find alternatives to China'.

With the way this is playing out, we are now convinced that the endgame will be when the market corrects, or more indicators point to a recession, the President Trump will demand the Fed cuts rates, and if unwilling to do so he will either ask for Powell's resignation, or fire him outright and see if it sticks. Kids look away.

The True Bully Pulpit

Source: Bloomberg

The Markets

While perhaps the subject of yield curve inversion belongs in the Economics section above, this week we are treating it as part of the Markets. Our favorite billionaire owner of DoubleLine Capital, Jeffrey Gundlach, thinks the parsing of words can stop now. Like it or not, we are indeed living in an inverted yield curve world, one in which the Fed has ‘lost control’. Another one of our favorite billionaire hedge fund managers, Kyle Bass, calls the global race to zero rates ‘insane’.

‘We Were…Inverted’

Companies

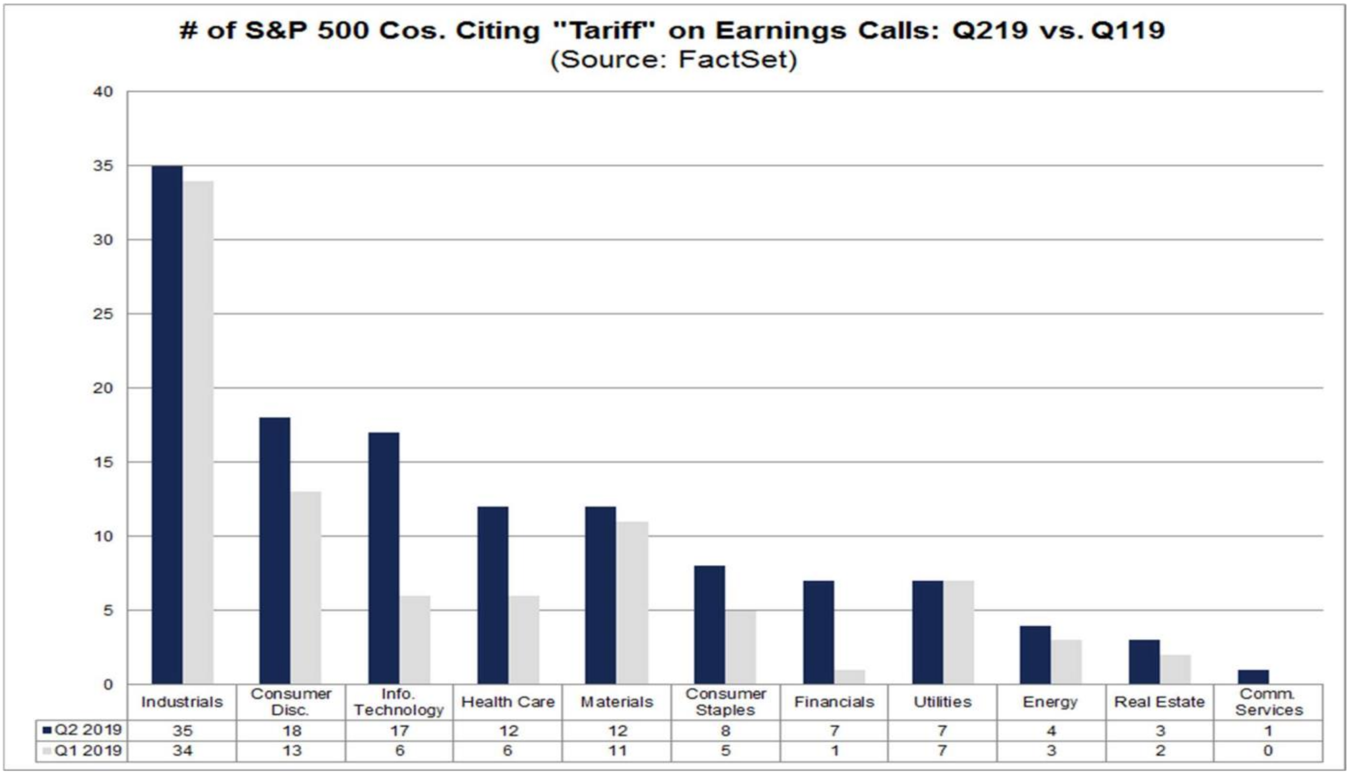
The tale of two groups of retailers, one that is riding the wave of a strong domestic consumer, and one that is stuck in a quagmire of busted mall space where too much square footage continues to drag them down. For the former, it was a big week as Target ripped the cover off the ball. Key to the company’s growth has been adopting an Amazon like approach to their online business and enhancing their short-term fulfilment capabilities. Meanwhile, Macy’s, JC Penny, and Kohl’s are stuck in neutral. Shares of Target went up 20% on Thursday. This follows a big rally in the shares of Wal-Mart the week before.

New & Improved

Source: MuliLineMerchant

As both the *Wall Street Journal* and Factset pointed out in the past week, the outlook for corporate earnings growth this year continues to get weaker. Right now, the third quarter is projected to contract by 3%-4%, and if the trajectory continues, the markets could be in for negative growth for the full-year. This is a decidedly different scenario from earlier this year when equities were rocketing higher off Fed Chair Powell's 'pivot' on interest rates. One reason the market has held up so well is that the headwind most companies site, tariffs, could go away in one simple tweet. Good luck managing money in a binary world like this.

Tariff Tantrum



Source: Factset

The long, very strange, saga of Patrick Byrnes' reign at Overstock.com is officially over. This week he resigned from his position and proceeded to go on a bizarre media blitz where he claimed the FBI had asked him to engage in a relationship with Russian spy Maria Butina, that would eventually turn romantic.

For sheer entertainment purposes we hope Byrne stay on the front page as his boastful behavior is some of the best non-fiction reading available. At least we think its non-fiction. His interview with Chris Cuomo, which is imbedded in the New York Post article, is serious Must-See-TV.

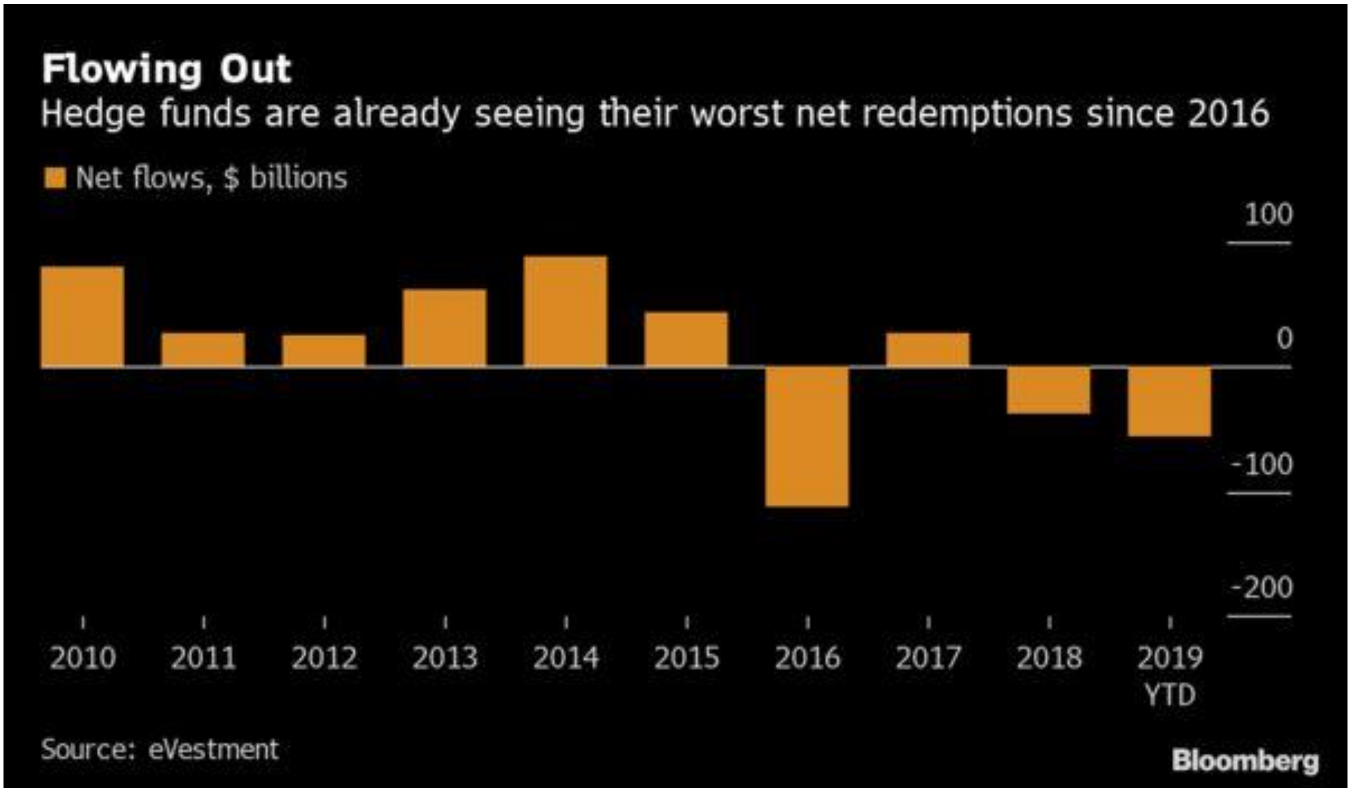
Byrne and Butina

Source: The New York Post

Hedge Funds

Our standing position is to write both the good and the bad about hedge funds. Finding the former is very hard these days, the latter is a different story. As they say in the news business, 'if it bleeds, it leads'. This week, the bleeding was of assets, where it looks like 2019 will be even worse for hedge funds that should be doing well in this environment. If *Bloomberg* has the numbers right, and we have no reason to believe they aren't, redemptions from hedge funds are already up 50% from last year. And by last year they mean all of last year, right now we are only in August.

Outflows Pick Up Pace



One of the reasons why the shine is fading is that managers tend to act like lemmings, piling into the same trade, often at the same wrong moment. Goldman Sachs is finding that healthcare is the current Bell of the Ball as the sector has some of the best earnings growth in the market and is somewhat insulated from a global trade slowdown.

In a shock to few, the largest two holdings currently found among hedge fund managers are Amazon and Facebook. We are long the one that has become the dominant global leader in e-commerce and business services hosting, while at the same time short what we consider to be a threat to the privacy and mental health of many, a fact that is not lost on the federal government.

Crowded Trade

It's 'easy come, easy go' for Mick McGuire and his Marcato Capital, where assets are down to $250 million, from a high of $3.2 billion four years ago. Mick was a wunderkind protégé of Bill Ackman, and he had backing from some of the heaviest names on Wall Street like Blackstone and Mr. Ackman himself.

The challenge for activist hedge funds is that they don't hedge. When you didn't' t hedge, and the market gets knocked around like it did last year, you lose 42% for clients. Last time we checked you can do that yourself with a 5-basis point ETF, not the 2% and 20% you needed to pay Mick.

If you believe in the saying 'if you don't kick a man when he's down, when are you going to kick him' read Joel Nocera's skewering of McGuire and his handling of the proxy fight he started with Santa Barbara's own Deckers Outdoor, the maker of warm and cozy Uggs.

Decker's Brands

Source: LinkedIn

Diversions –Ranch Real Estate

In keeping with the Jackson Hole all things western theme, *This Week in the Market's* takes a cue from *The Wall Street Journal* and their coverage this week of the growing inventory of large ranches in Colorado that are going unsold. The glut was the result of a buying spree twenty years ago when every new(ish) money baron wanted a place to hang his Stetson. Turns out, the next generation isn't so keen on holding that kind of inventory and the high cost to carry that goes with it.

The Journal also profiles the two men at the helm of the Bozeman office of Hall & Hall, who are considered to be the shepherds of some of the finer properties in the Rocky Mountains. If nothing else, it's fun to take a cruise through what a few million bucks buys you across this great country of ours. One of them being the 11,000-acre Double Heart Ranch outside of Gunnison, Colorado.

Double Heart Ranch

Source: Hall & Hall

If you are looking to fade the market and go super big, like 'price upon request' big, there is the Stones Throw Ranch in Jackson Hole. For the low, low, price of 'ridiculous' you can own 70 acres of the Snake River Valley while putting your feet up in 20,000 square feet of living space.

Stones Throw

Source: Jackson Hole Real Estate

If you are looking for ranch land, and a fat break on your taxes there is the 220 acres on Bystre Lake in Florida that is just waiting for you to come in and sub-divide. In what we Californians would consider to be a little crazy, the property taxes on this $5 million property is only $6,000 a year. We have it on good authority that the seller will throw in the resident gators for free.

Clearwater Adjacent

Source: RanchFlip

Keeping with the same tax friendly theme, for a mellow $20 million you can call Texas Hill Country home at the Doss Springs Creek ranch outside of Fredericksburg. If you have never been to this part of Texas, you owe it to yourself to spend the time taking a long and winding loop from Austin to Johnsonville, and back. It's hard to describe what it's like to drive the roads, look out on the oak filled hills, and dive into some very authentic barbecue. Californians beware, they know you are coming and have priced things accordingly, but you can still enjoy the ride.

Hill Country Comfort

Source: Longhorn Real Estate