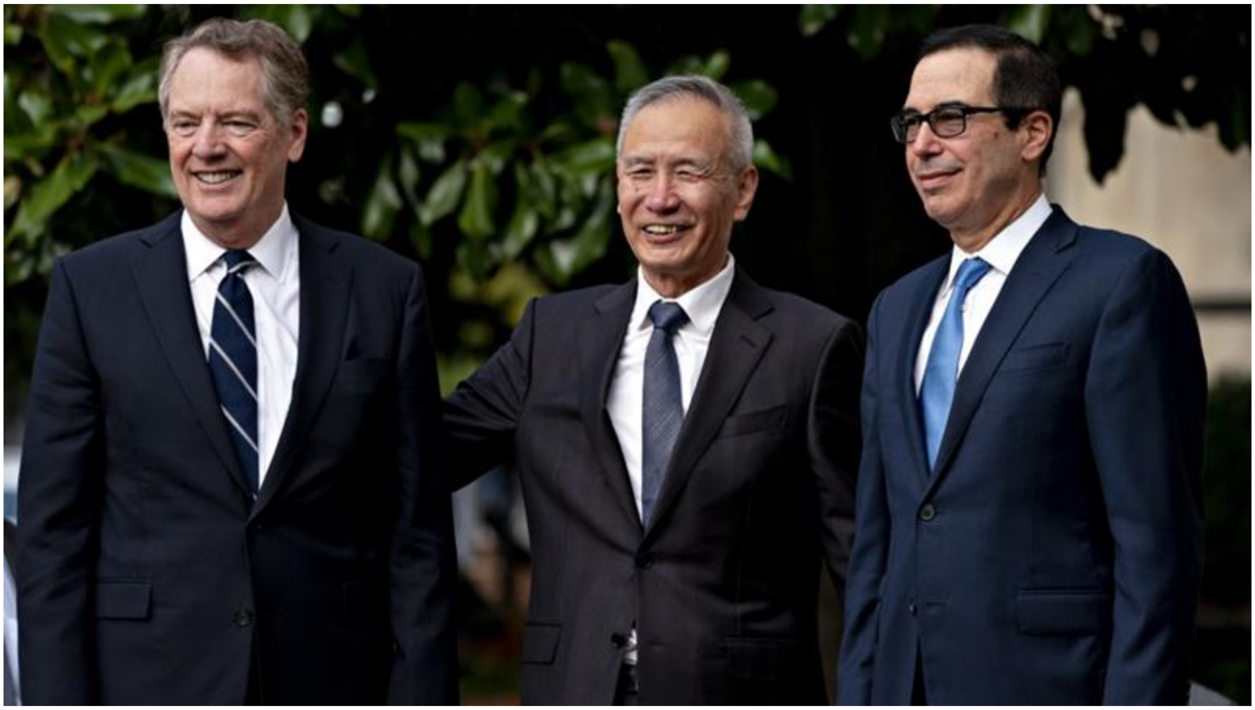
Let's Make a Deal?



Late Friday, word hit the Street that some form of agreement was being worked on, and it was part of the 'phase one' of the trade deal President Trump mentioned a week ago. The news was light on specifics, as has been the case for some time. Not that we subscribe to conspiracies, but these announcements always seem to come late in day on Fridays, just in time to be the weekend headlines. Coincidence? You be the judge.

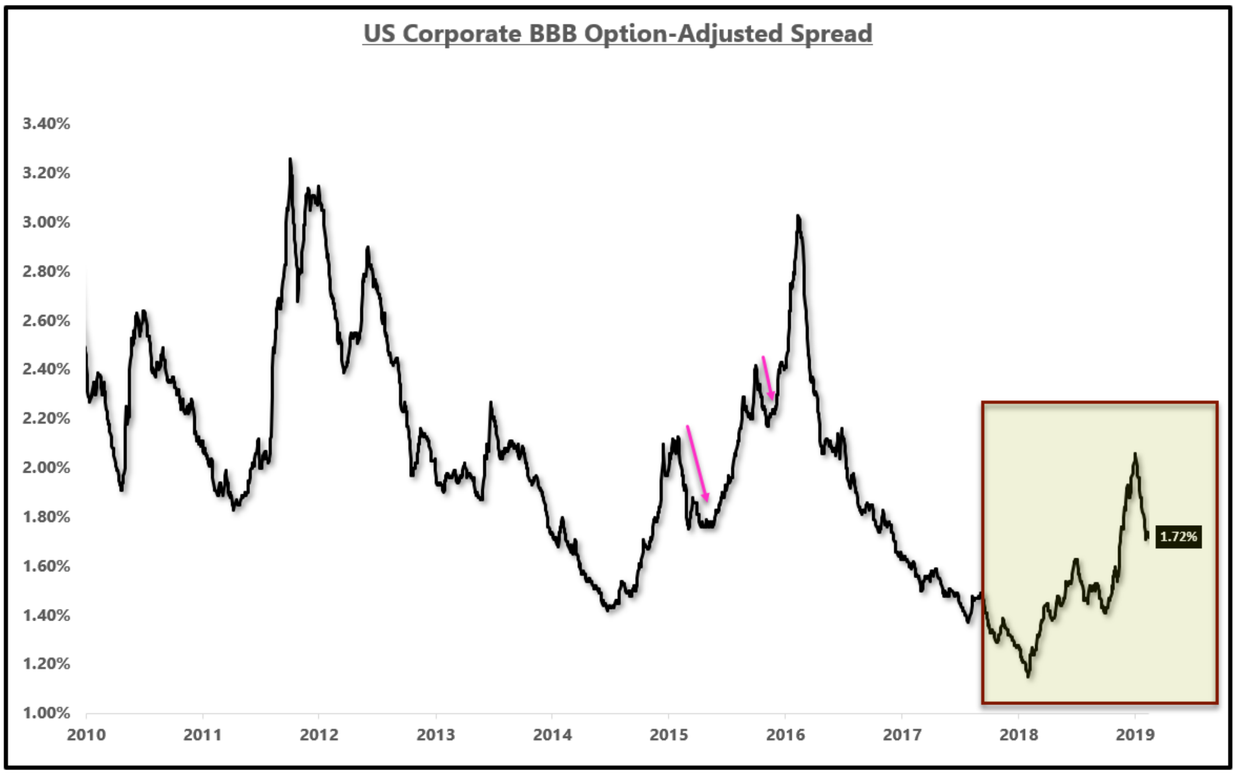
The Economy

It was a week that was remarkably devoid of economic news, with nothing on the calendar to move the markets. However, there have been some underlying indicators in equites that are painting a bleak global picture. This is especially acute in the Dow 30, which due to its concentration, is not the best measure although this is telling a story anyway. As the Wall Street Journal pointed out on Thursday, it's Apple dominating the drive higher and 3M, Boeing, Caterpillar, Exxon, and IBM holding it back.

Markets

High yield credit markets are beginning to show signs of stress, but to be clear, this is not your father's higher risk debt. On the contrary, most of what constitutes the market today is either telecom related or energy credits, neither of which really give you a good read on the overall economy. The former blows cash on providing you mega data plans, and the latter on chasing crude and natural gas that is getting less and less profitable.

Credit Spreads Widen

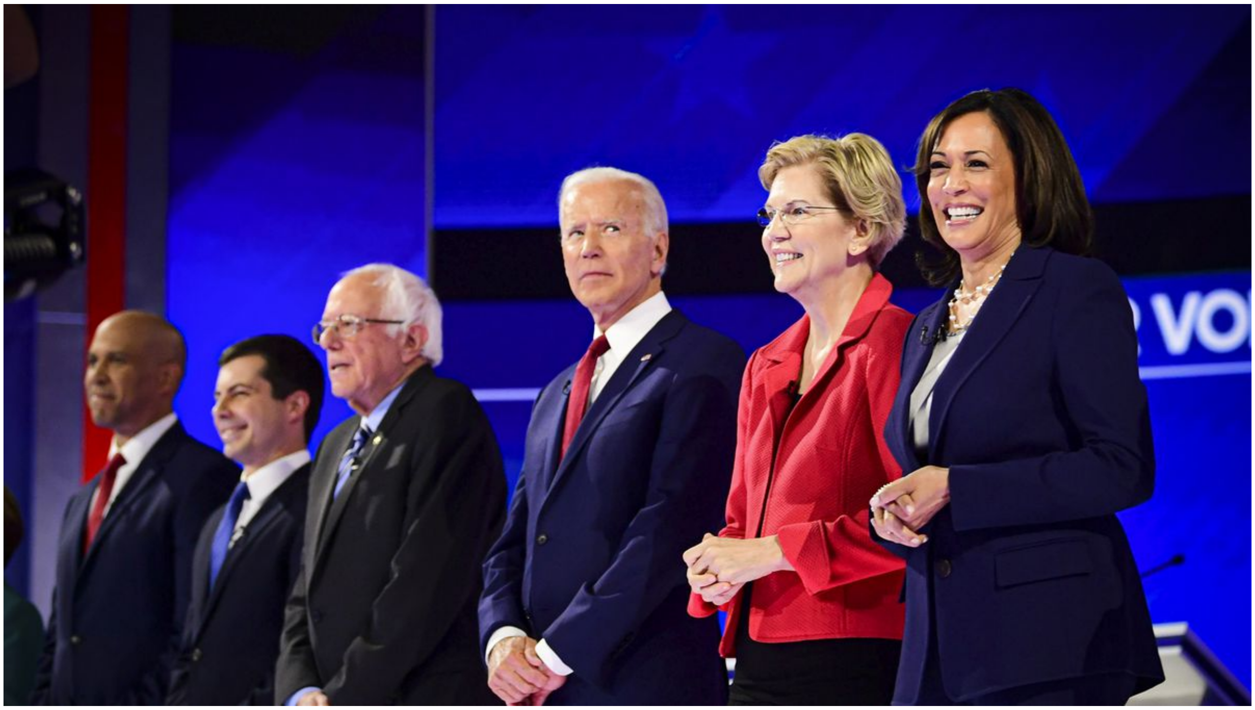


Source: Seeking Alpha

Financial Literacy

Because a New York to Los Angeles flight is a long one, I forced myself to watch the Democrat debate from seat 14A last Tuesday. As expected, it was about as disappointing as one can imagine. That said, I don't think a Republican version would have been much better. Bottom line from my perspective, Washington is drawing answers in crayon, while the world needs something in a more adult permanent ink.

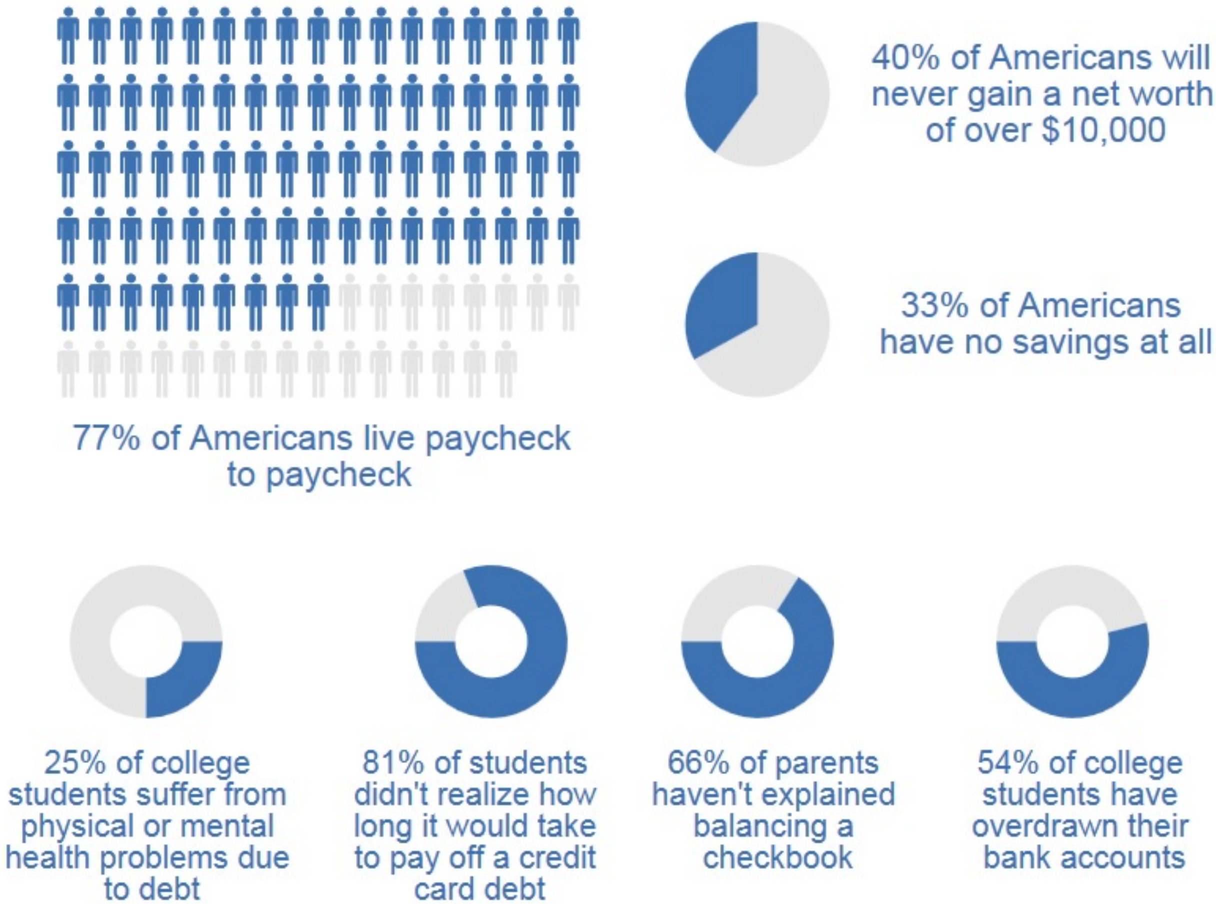
The Answer?



Source: Vox

During the debate there was a deluge of plans and ideas to help the middle class and advance the cause for higher wages and a better standard of living. One of the things that wasn't put forward, but that the Wall Street Journal reminded us of this week, was the lack of financial literacy among Americans of all stripes.

Frightening

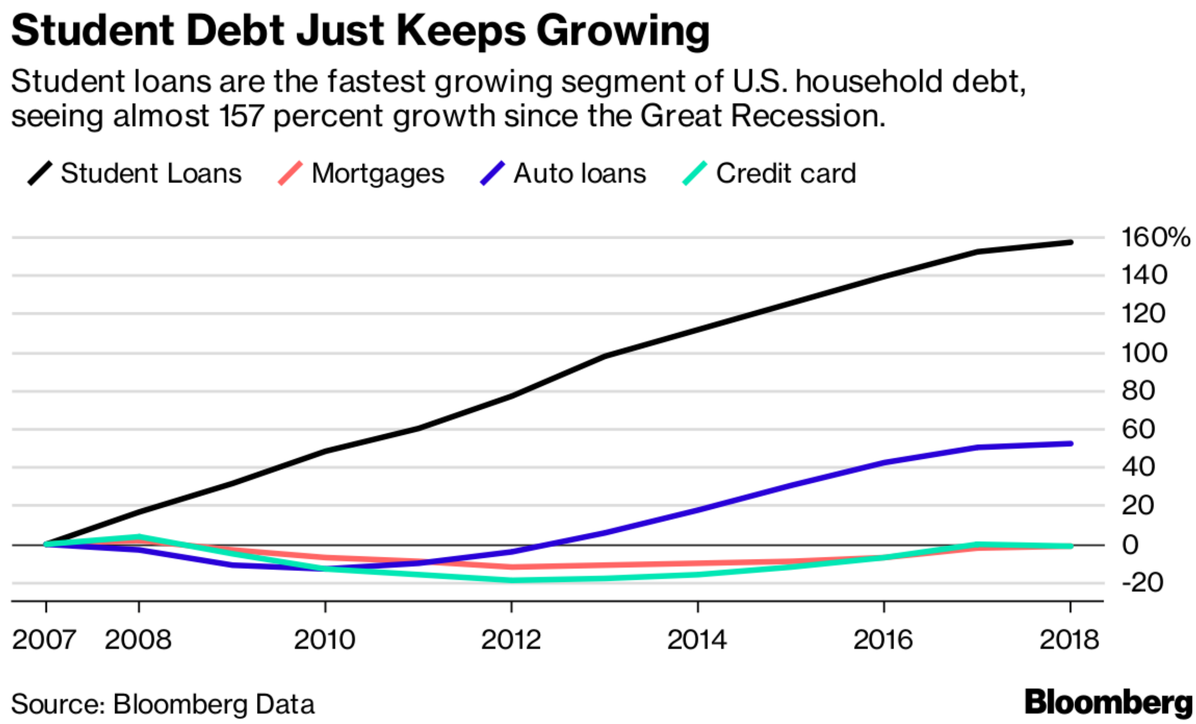


Source: Rosen Foundation

This time they produced a special section on the 'Nine Myths About Credit Scores', and the impact it could have on your life. What sounds boring to some, actually makes a lot of sense when you get down to the brass tacks of living a stable life. Perhaps candidates could start focusing on advancing causes that don't cost a great deal and allow for a more self-directed life.

800 Or Bust

You know the topics is hot when a guy like Ashton Kutcher gets involved and starts producing programming that goes to the heart of the topic, with a big focus on student debt. In ‘Going for Broke’ Kutcher explores the problem many millennials face as they struggle through paying back loans that got them into jobs that didn’t provide nearly the income to offset the cost. It also delves into the larger problem of a lack of financial literacy that catches up to so many, and winds up acting as a headwind to wealth accumulation and upward mobility.



The Bottom Up

The bears on Tesla got served a big plate of pain this week, when the stock rallied more than 15% on news that deliveries were well ahead of pace on profitably and started to produce increased cash flow, all of which has been the Achilles heel if this stock for some time, and the main reason we had been short the shares in the past. We have been on the sideline for a while and will probably stay that way. There are easier ways to get to heaven than fight this one out between $250 and $350 a share.

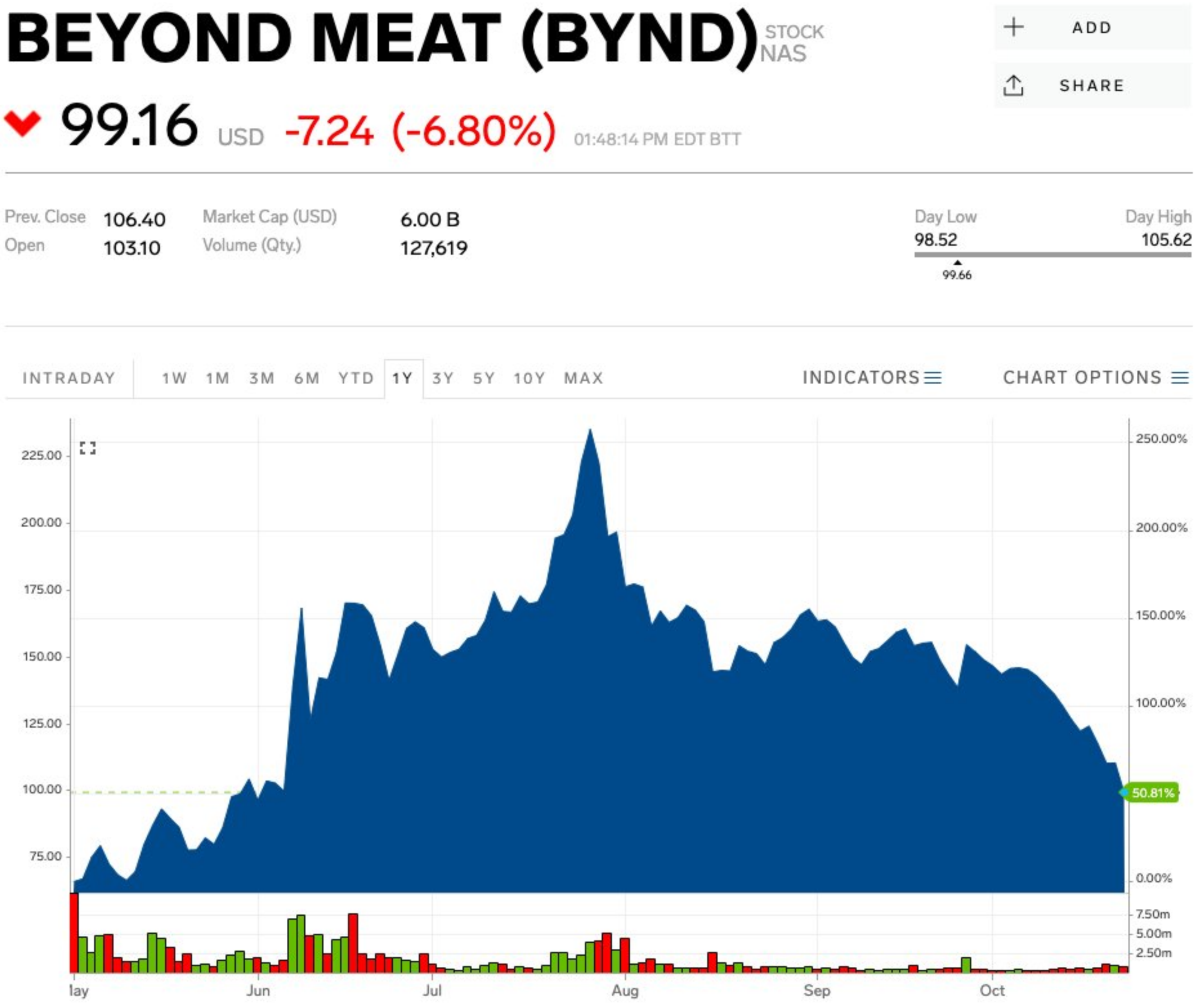
In what has become a weekly ritual on Capital Hill, Mark Zuckerberg was put in front of Congress once again. This time to explain how Libra was going to work, and how defendable. Wired Magazine provided a great writeup of what that looks like, including what happens when you need to use the restroom.

Can I Go Pee Now?

Source: Wired

In late September, Stillwater introduced the ‘Bubble Basket’. A select number of stocks that we thought fit the criteria for being good short ideas based on late cycle dynamics that have caused them to quickly become ripe for lower share prices. While most are already in the black, Beyond Meat stands out as a big winner so far. With a 3% short position the stock is now down 30% and we have put 100 basis points of profits in client’s pockets.

Something Burger



In meat related news, Inc. Magazine ran a great article on Epic Provisions, purveyors of fine jerky in salmon, venison, bison, and beef form. Based in Austin and the Hill Country of Texas, the company was purchased by General Mills in 2016 for a reported $100 million dollars. The article chronicles the seemingly fairy tale story of a high school romance, that turned into a passion for food, that then parlayed itself into a life changing amount of money, not to mention, great jerky.

Truly…

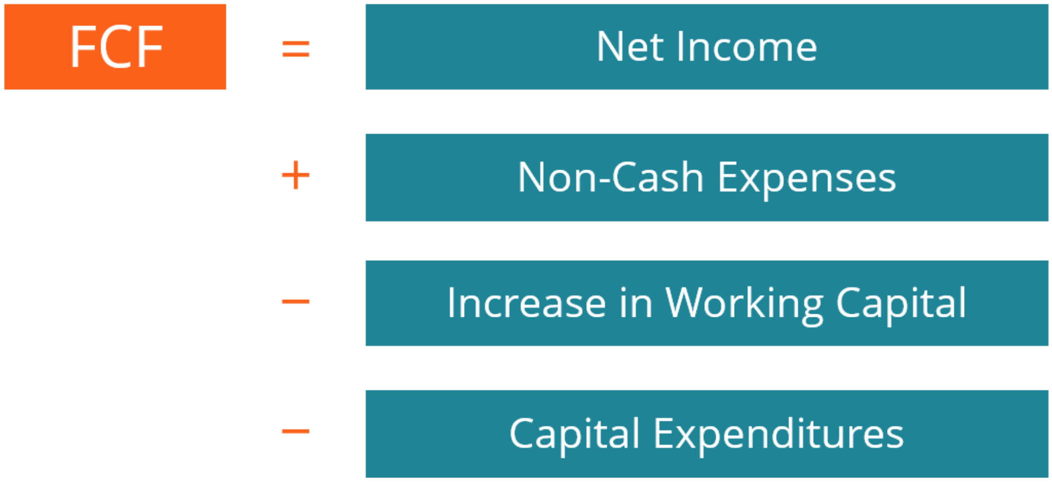
Editor's note: The culinary craft has been my side gig going back to when I first got into the hedge fund business in 1996. My passion and interest stemmed from the peaceful offset cooking provided from the day job. Markets can be manic and uncontrolled, but when you are in the kitchen, it's you canvas to paint, without the fear of a VIX spike or a Trump Tweet to throw rocks into the gears. My passion for the art will be manifesting itself into a craft salsa that will see a limited run for the holidays. The edge it will bring comes from a special ingredient that has been popularized in Santa Barbara for a while. A larger announcement is to come, in the meantime here is a hint.

Nutty

Accounting 101 - FCF

This week marks the peak of the Q3 2019 earnings season and there has been a surprising trend in companies that are running with negative free cash flow. The measure of this indicator is one of our primary search criteria we use for picking both our long positions and our short sales, and it's been working of late. Apple has it in spades, Boeing, Snap, and Netflix…not so much. The latter three we have been successfully short over the past year. So, next week we are going to do a deeper dive into the subject with a special section titled Accounting 101 -FCF, the free cash flow edition. For now, students, this is what you need to know.

The Good Stuff



Up and Down Wall Street

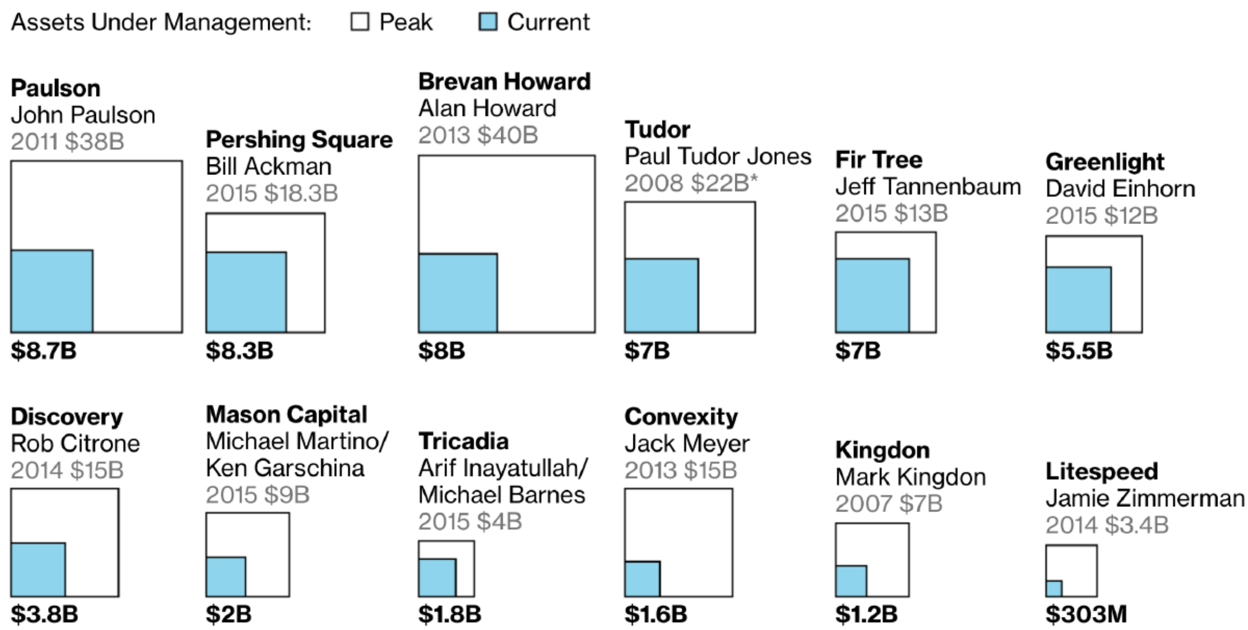
Full Disclosure: If you work on Wall Street, this week's Up and Down Wall Street section should probably be read with an adult beverage and a Xanax sidecar. Bottom line, it isn't pretty out there.

Line Em' Up

Source: VinPair

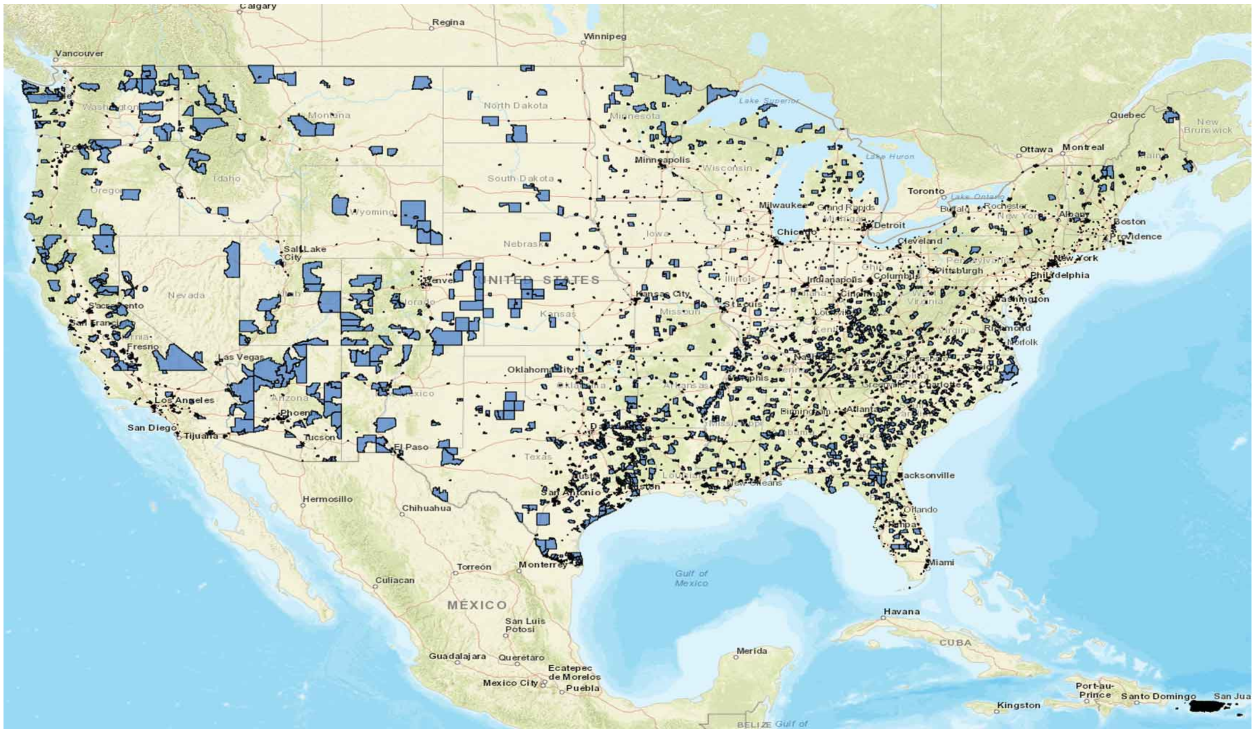
In demoralizing news for full fee hedge fund managers, former star manager Jeffrey Vinik shut down his effort to re-boot his business after only 8 short months. His plan to raise $3 billion didn't go as hoped, and only $500 million showed up at the door. Vinik cited a changed environment for investor appetite in long/short equity funds, middling performance, and a high cost structure. We would add that the strategies still make sense, when properly managed. But unless you are special snowflake, the locked up 2% management fee and 20% of profits model is broken, and not coming back anytime soon.

Tombstones of the Golden Era



In what was a surprise to us, Opportunity Zones have been slow to take off and have raised only a fraction of what they set out to bring in. With such a white-hot splash out of the gate, the interest level has been anemic, like 15% of expected anemic. The biggest gating factor so far has been the 10-year lockup and investor need to commit if they want to get the full tax benefit. Last month the Journal ran an op-ed on how O-Zones in Chapel Hill, North Carolina, were going to where they were needed least.

Coast to Coast



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