Groundhog Day…All Over Again

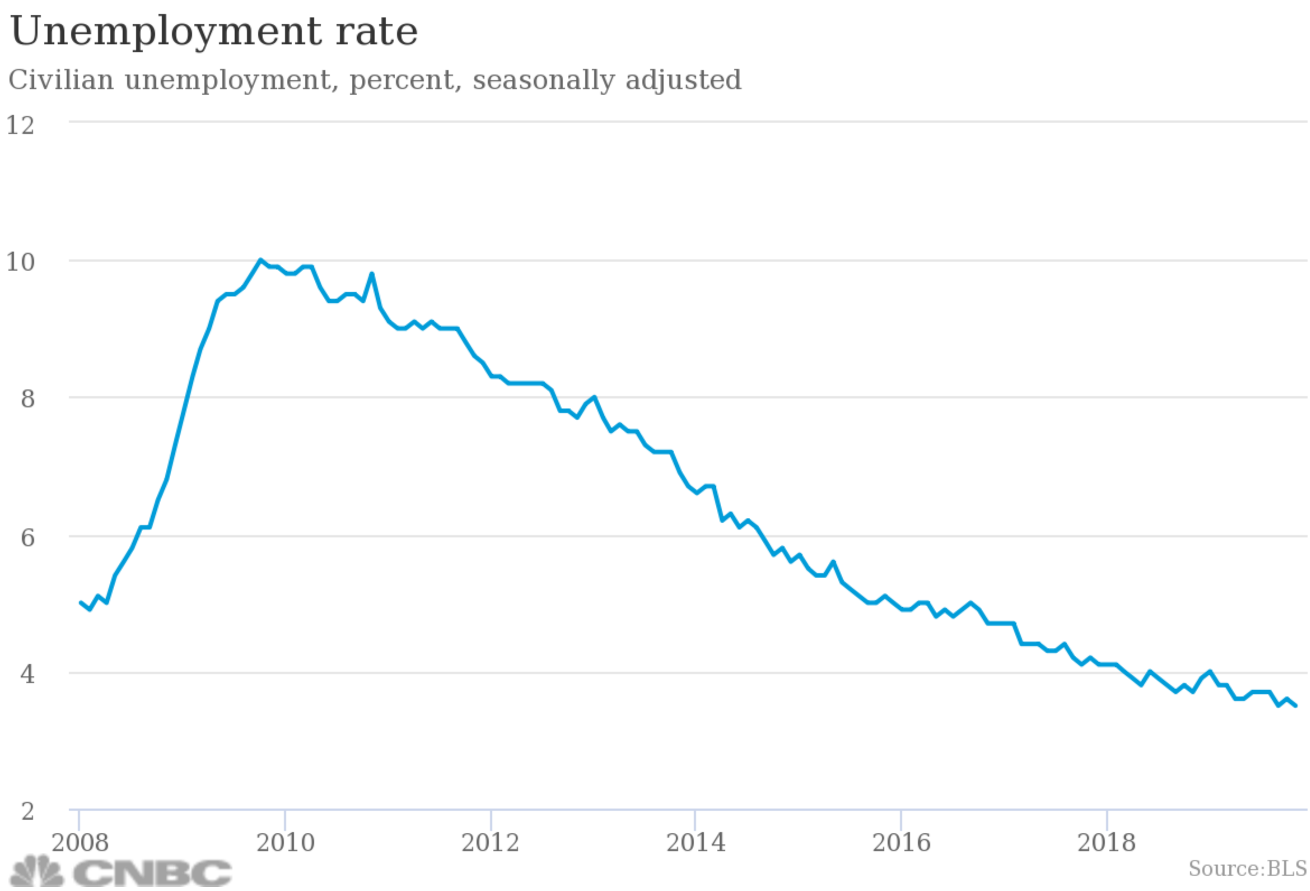
Another week, another round of rumors that 'skinny deals' are imminent between the U.S. and China. Only this time President Trump reversed field, using his increasingly strong economic hand by threatening to table any agreement until after the 2020 election. The idea being that a win on election night would be taken as an 'hhhuuugggeee' mandate for the incumbent. The market loved the former and sold off on the latter.

Trump Y'all

Source: Axios

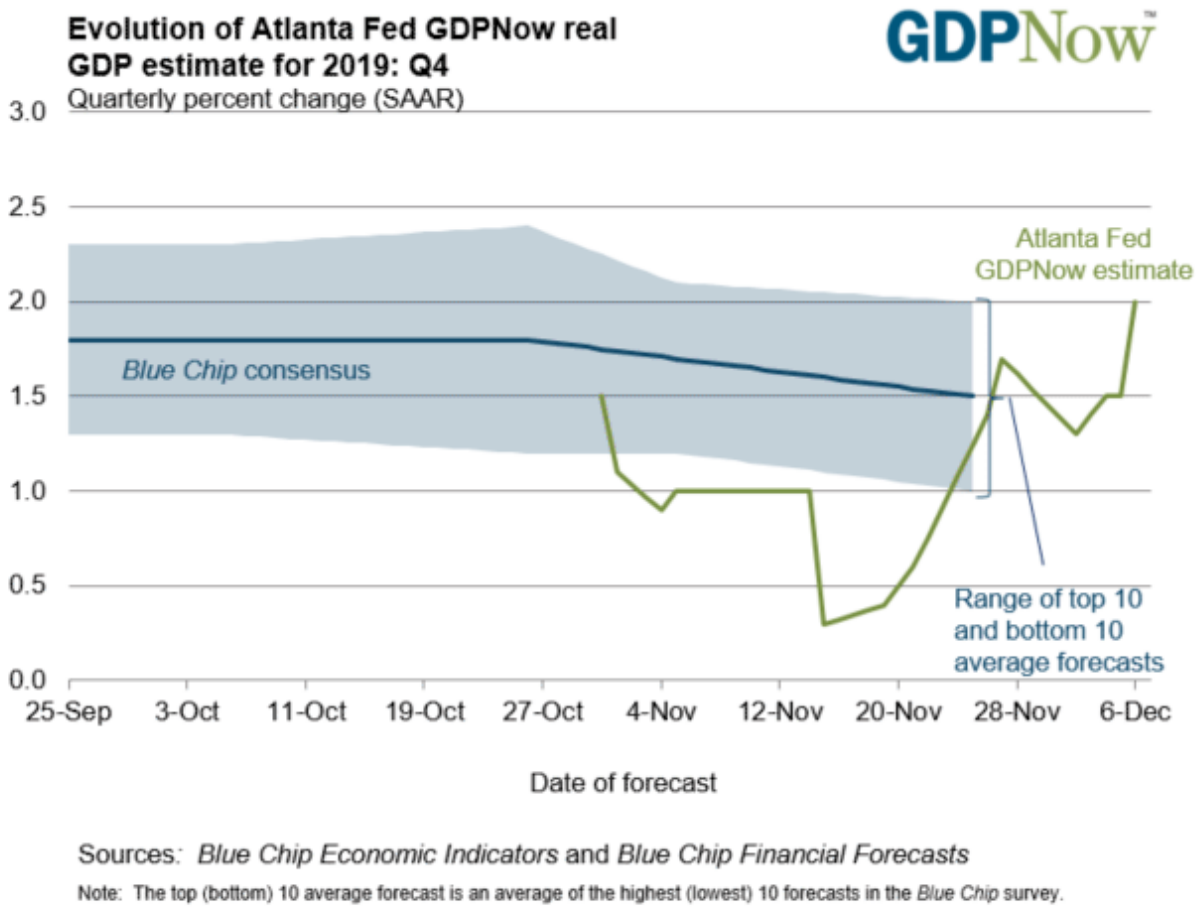
The President was dealt another face card when the November employment report was released, and the 266,000 new jobs created blew away Wall Street consensus of 190,000, and the unemployment rate dropped to 3.5%, a low not seen since 1969. It also marks the 110th straight month of employment gains. CNBC tells you where the jobs are, MSNBC on the other hand, tells you to mark it with an asterisk. Equities rose sharply on the news as the pendulum has quickly swung from bad being good, to good being freaking great.

Jobby, Jobs



The Atlanta Fed's well watched GDPNow forecast has seen a material spike higher since the middle of last month. Thirty short days ago the reading was projecting a meager 0.5% gain for the economy in the current quarter. With a flurry of hard data releases that have all shown a bias to the upside, we are now back up to a growth projection of 2%, rising by .5% after the aforementioned strong jobs report.

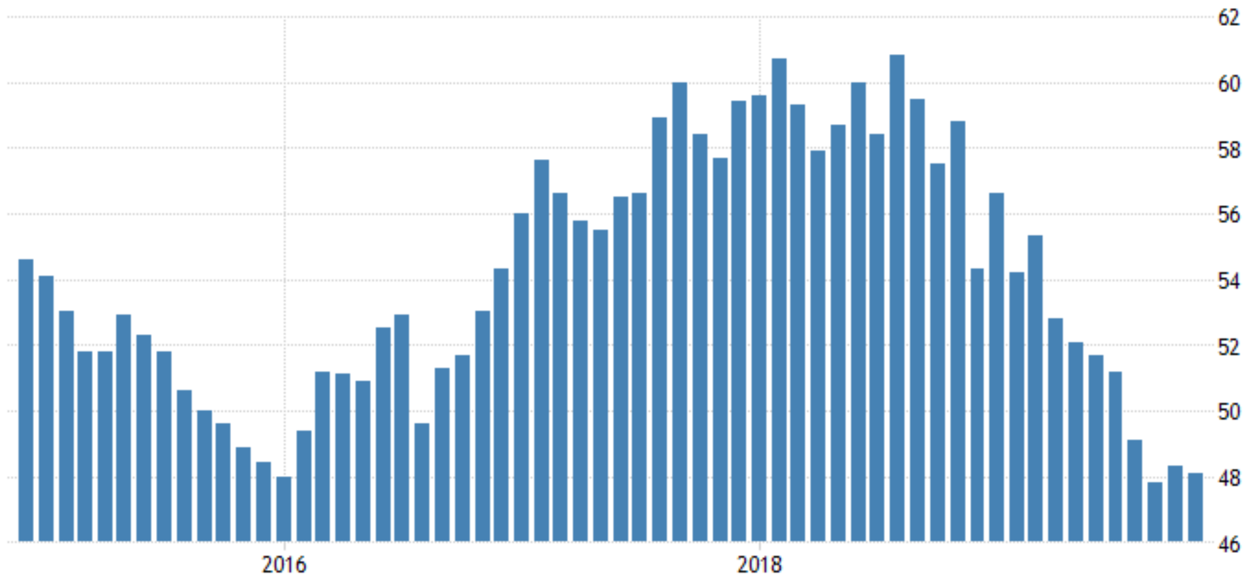
Consensus Now Lags



One of the indicators that appears to have bottomed is the Purchasing Managers Index (PMI), which came in flat month over month with a reading of 48 for November. Anything below 50 is a sign of economic contraction.

There are two things interesting about this chart. First, the economy was looking similarly shaky going into the 2016 election, only to rebound pretty aggressively once the outcome was decided. The other observation is that PMI has been falling hard since January. At the same time, the equity market has moved strongly in the other direction. What's the lesson? The Fed….uber alles!

PMI



Source: Trading Economics

Which brings us to our final comment on the markets this year, and how strongly they have been led by the top-down macro, and much less by the bottom-up micro. What has been so remarkable is the embrace of anything remotely good, while negative news gets ignored like a red headed stepchild at the family reunion.

That being the case, this should have been a great year for macro traders looking to follow rule number one of the classic playbooks, and that is to not fight the Federal Reserve when they are cutting rates. Markets simply don't crash with that kind of liquidity tailwind, that just so happened to turn on a dime last January when the Fed blinked.

'Lacking Touch'

Source: Business Insider

Hedge Funds

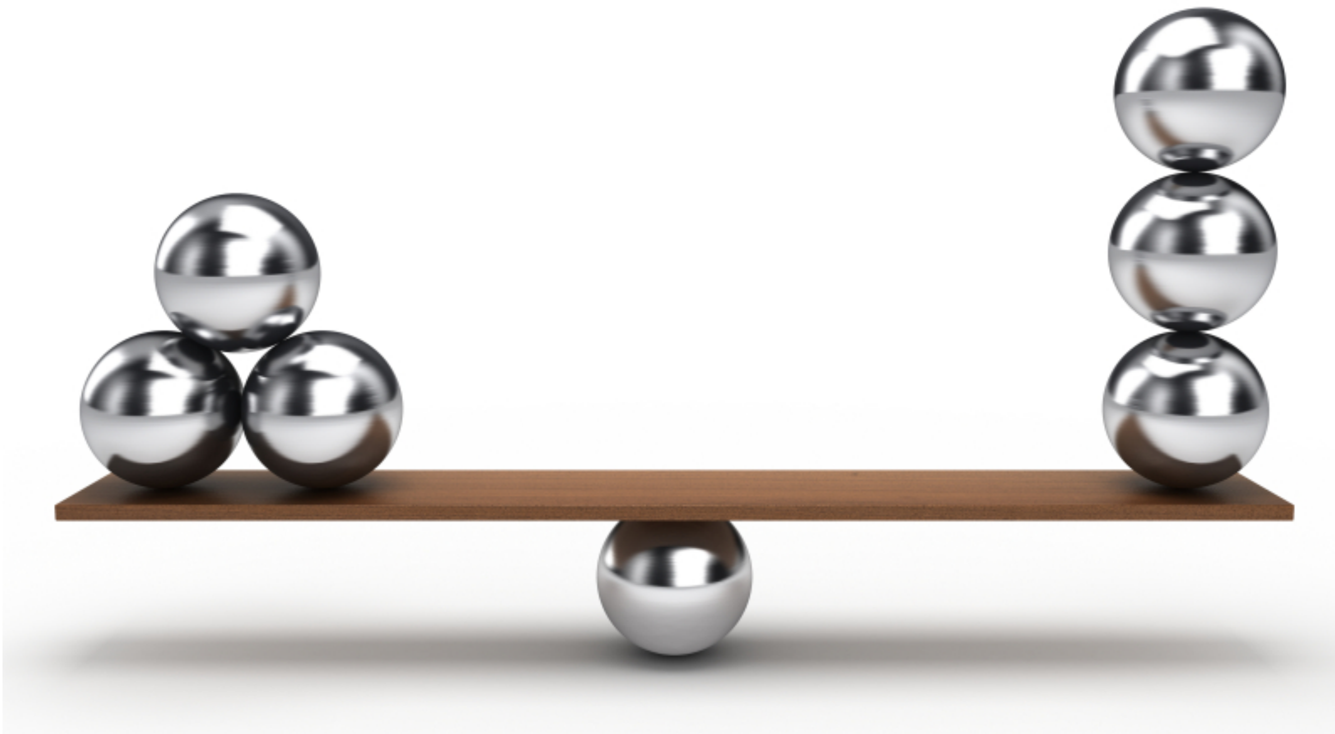
This week Bloomberg ran a profile on Dawn Fitzpatrick, the current CIO of Soros Fund Management, the family office of legendary macro trader George Soros. She is the sixth person to hold that title since 2000, and without a doubt, the most conservative. When she took the job a dozen high ranking portfolio managers were told to find a seat elsewhere. She replaced them with a fresh dozen whose mandate wasn't to make as big a return as possible, as was the mantra when Soros was making his original billions. Instead, the objective now is to cover the $1 billion nut the foundation spends each year, while not cutting into the principal.

George Soros, circa 1995

Source: The New Yorker

So, it was goodbye swashbuckling global macro trades, and hello far more pedestrian market neutral strategies where portfolio managers are pairing off equal sides of the long/short investment book, trying to score with single after single after single, with no power hitters in the lineup. Still good money for a PM if you can get it, but a far cry from the fireworks and paydays of the past.

Perfect Balance

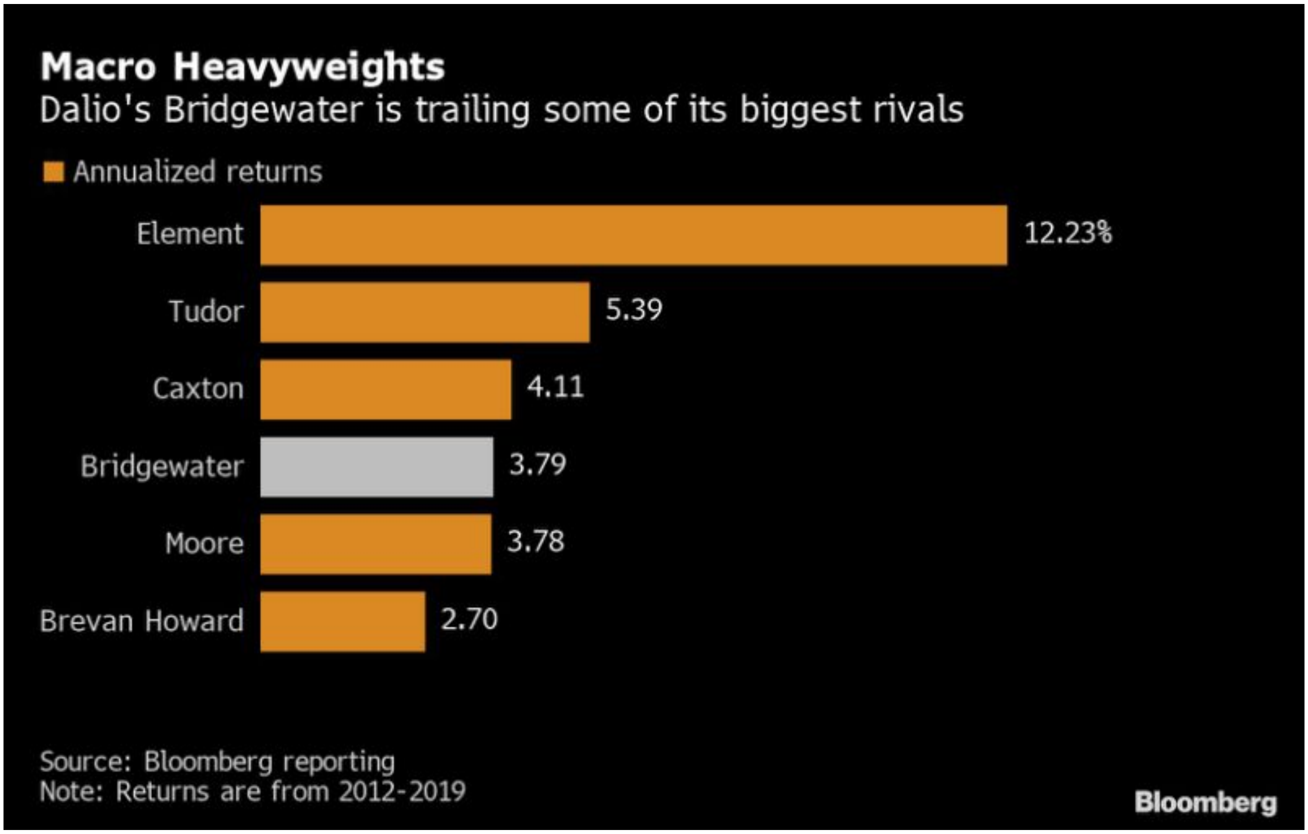


Source: Jenskiel

In keeping with the subject of Masters of the Financial Universe, Ray Dalio's Bridgewater is having a tough time this year, losing roughly 2% through November. This comes at an interesting time for Dalio as he continues to take on an even bigger persona on the world stage, while the firm he founded is not only struggling with the markets, but is also seeing employee turnover at the highest ranks.

Even though the returns highlighted below are pedestrian, the firm did put up a stout 16% for investors last year in an otherwise tough environment for hedge funds. As was announced two weeks ago, Moore Capital has seen enough and has now thrown in the towel.

Diminishing Returns



Finally, this week there was news that SAC founder Steve Cohen was looking to buy an 80% stake in the New York Mets, valuing the team at $2.6 billion. In a letter to investors of his Point72 fund, Cohen said that he was fulfilling a lifelong dream of owning a baseball team. The Mets just happen to be the one he rooted for as a kid growing up on Long Island. His real passion, as evidenced by his multibillion dollar net worth, will always be investing. As for the rest of the legends of the Golden Age of Hedge Funds buying sports franchises, good luck out there. Same to you, Ron Rivera.

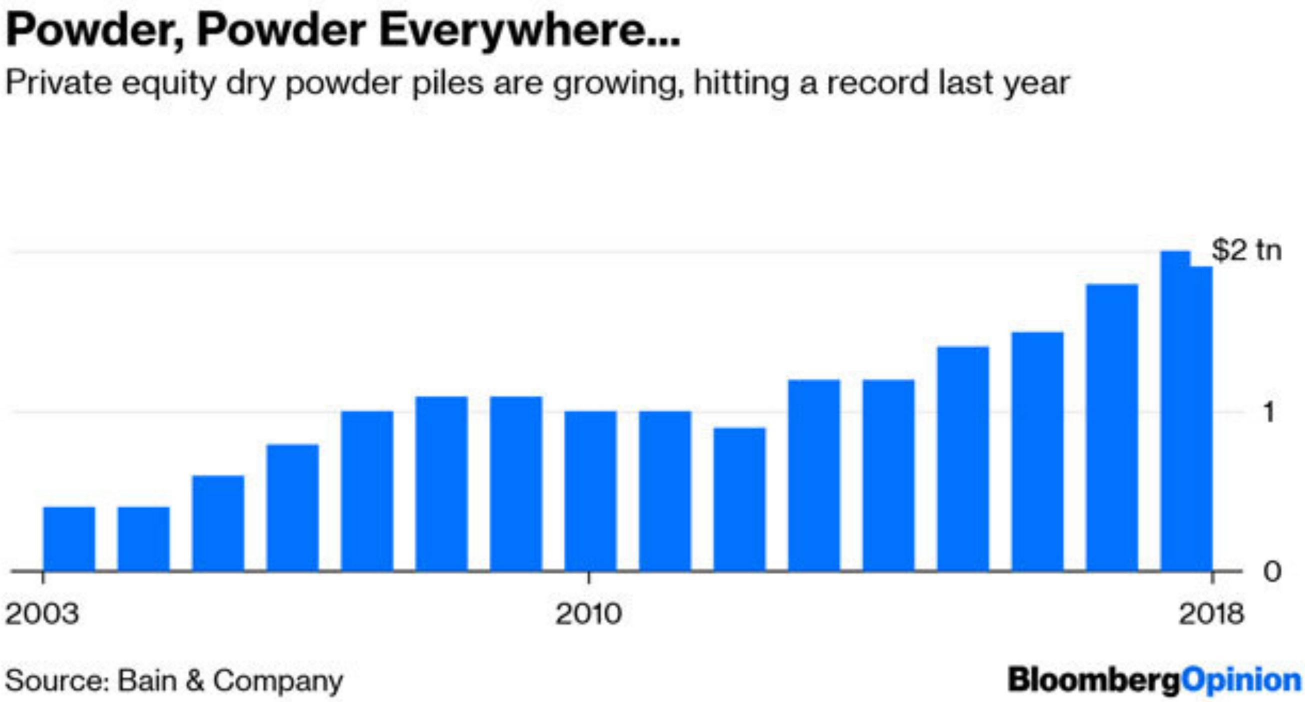
Hall of Famers

Source: South China Morning Post

Private Equity

The theme of 'expect less' going forward from public equities has spilled over into private equity as well, with both Morgan Stanley and Goldman Sachs seemingly ringing the bell. This week, both cautioned that we have most likely seen 'peak P/E' for this business cycle. CalPERS is already feeling it, reporting that for the most recent twelve months private equity put up 7.7%, which is down from 16% the prior period. At this point, there is simply too much money, trying to find too few good deals.

But What to Buy?



On a personal note, the last three stops on my career involved working at firms where private equity was the owner; Nuveen, Mercer Global Advisors, and TCW. In each case, there were far more challenges than any employee would have expected given the lofty growth charts provided in the deal deck. A fact that was not lost on those of us who were working hard every day inside the factory.

Grinding Away

Source: The Mirror

Final comment on the subject of the late stage nature of private equity, if you are an advisor, client, endowment, or institution holding on to private equity investments that you would like a price and potential bid on, please connect with us (contact@stillcap.com). Outside of the advisory business with Stillwater Capital, we have a relationship with Capital Dynamics, a buyer of private equity secondaries and growth venture capital. It's our job to find clients looking for liquidity, their job is to find you a price.

CapitalDynamics

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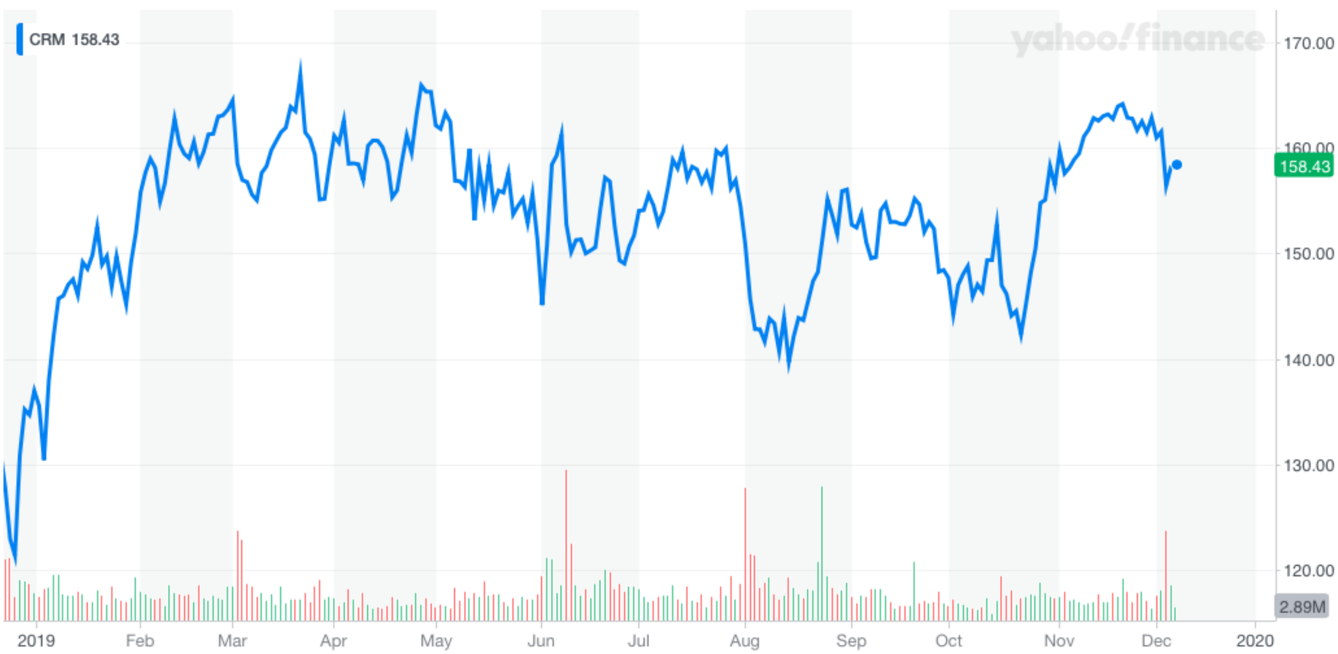
Companies

Salesforce, the customer relationship management software goliath, reported earnings this week, and Wall Street yawned. Why do we care? Because we currently hold a short position in the shares based on the fact that the company's 'growth by acquisition' strategy is out of runway, and if organic growth doesn't start to accelerate in a hurry, we think there are plenty of investors that will bail on the stock. Look no further than market gadfly Jim Cramer to sum up our feelings.

"I think that they could say that there's going to be a five for one split, boosting the non-existent dividend and buyback 50% of the stock and it wouldn't matter," said Cramer. "I mean, we're in a downturn. What you want to do is you want to look back at the 2014 downturn and the 2016 downturn and get a sense of what can occur."

Salesforce – CRM



Peloton shares sold off this week on backlash from what will probably go down as the advertising disaster of 2019. In a recent spot geared towards the holiday selling season, the portrayal of a female recipient of the bike fell terribly flat as wafer thin bougie actresses tend not to make for the best 'before' images of health. As CNBC reports, even the actor playing the gift giving husband is taking a hit.

Deer…Meet Headlights

Source: Vox

We like the story because Peloton is on our list of bubble stocks and our clients will be seeing the accompanying short position by year end. In our opinion, and the opinion of a few smart others, at best this is a company that trailblazed itself into relevance only to expose the trend to competition. At worst the $2,300 device will eventually become an expensive coat rack to many buyers.

The Peloton

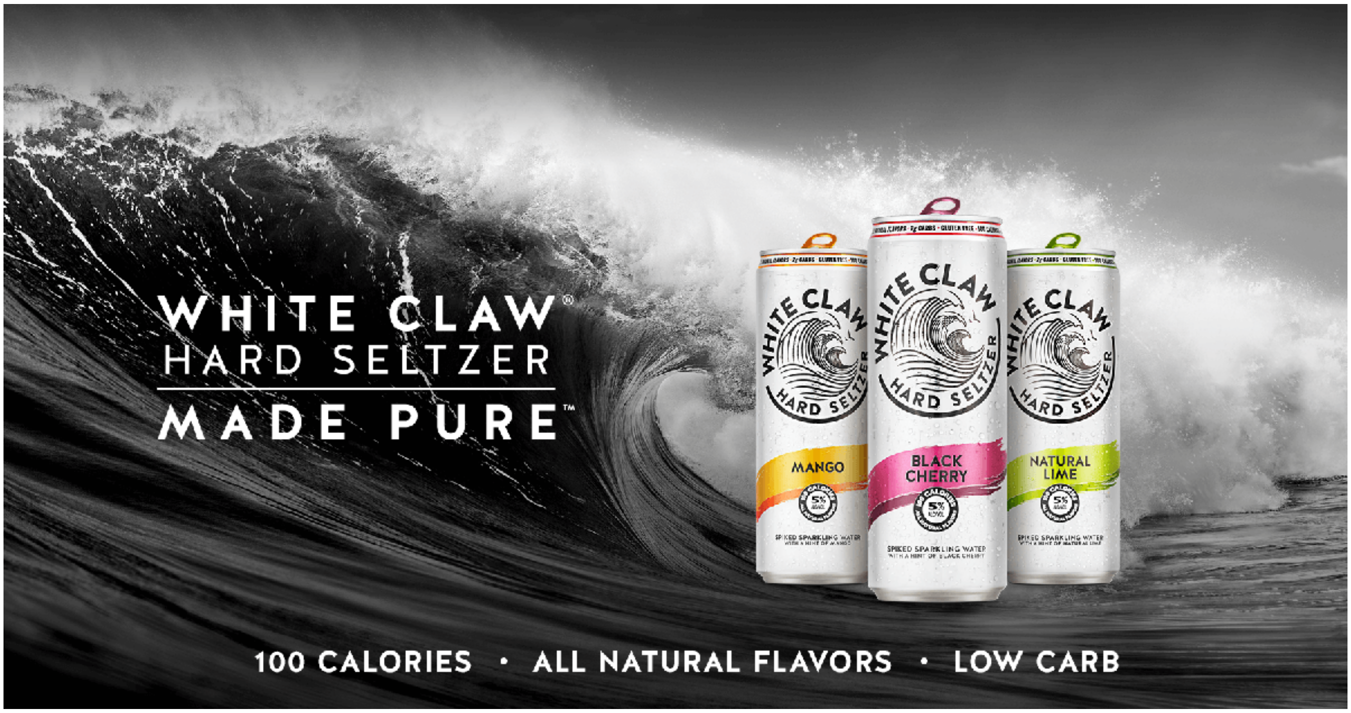
Source: Peleton

Finally, someone is taking our less than positive side on the outlook for Facebook, as this week HSBC initiated coverage of the social network with a 'reduce' rating and recommend investors sell the shares. The reason, and this is our view as well, is that there is significant regulatory risk to the share price, little of which is currently priced in. The analyst, Nicolas Cote-Colisson, pegged the downside at 40% from here if regulators 'advance their plans for intrusive interventions' in the company's business practices. We also happen to have a very anti-ESG view of social media in general and the negative societal impact they have.

Social Media Soup

What Facebook is to marginal postings online by millennials and underage kids without fully formed frontal lobes, White Claw is the alcoholic beverage equivalent. Last week CNBC profiled the company, and the broader seltzer market over time. If there was a near term crescendo it happened earlier this year as 'The Claw' was a defining part of summer 2019 in America.

Catch the Wave



Comedian Trever Wallace's 'drinks White Claw once' summed up the entire fad, in a very funny viral Facebook post way. But denizens beware, as the Norwood Ohio Police Department said in a post earlier this year, 'Ain't no laws when drinking Claws is not a viable defense and will not hold up in any courtroom'. You got to give it to the boys in blue on that one.

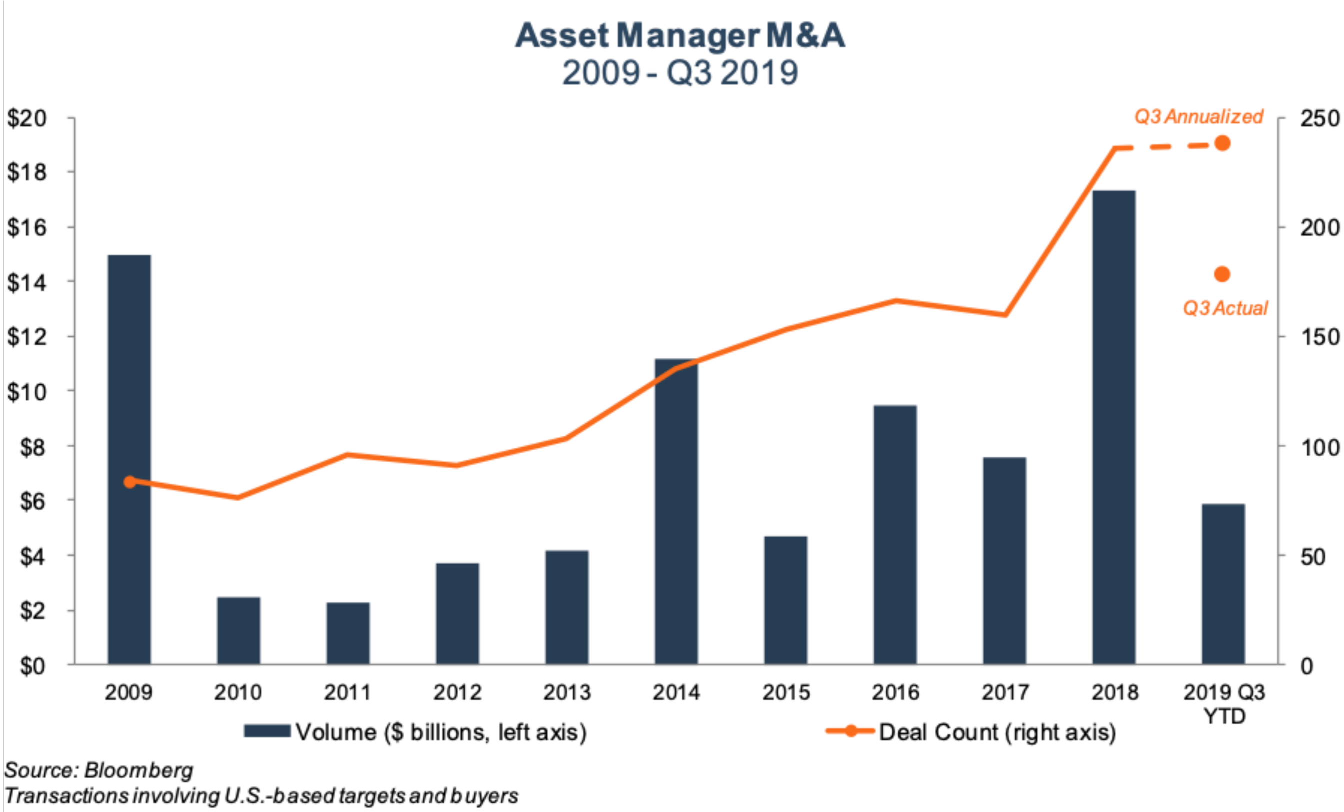
'To Protect and Serve'

Source: CityBeat

Up & Down Wall Street

The hottest ticket on Wall Street continues to be in M&A, and the consolidation of independent financial advisors as well as white shoe 'break away' brokers to form what are fast becoming multibillion-dollar behemoth aggregators, the likes of which private equity firms are happy to supply with all the dry powder they want. The appeal is that in a world of ever decreasing margins for mutual funds, ETFs, hedge funds, and most anything else you can place in a client portfolio, the advisor management fee for those assets is what matters most these days.

Glory Days



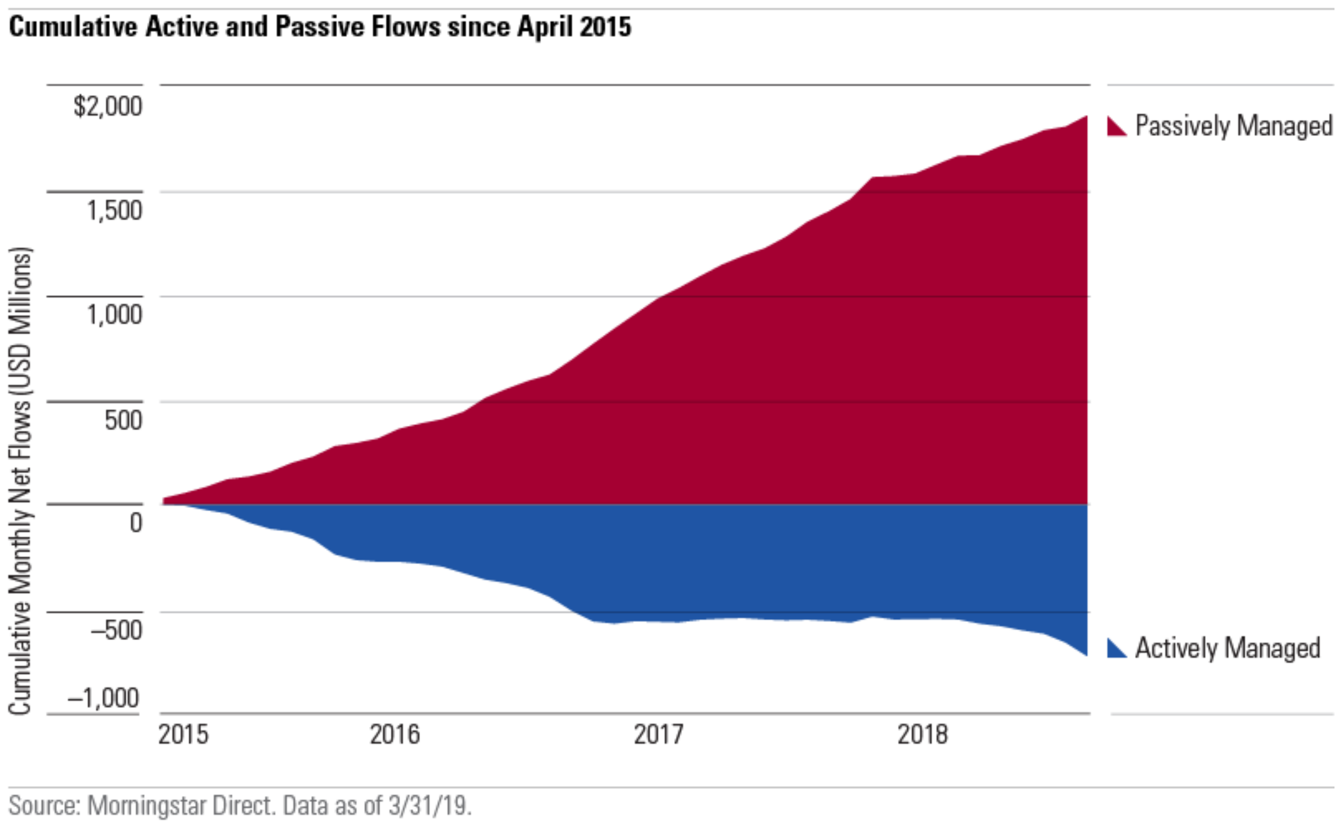
Morgan Stanley CEO, James Gorman, set the tone for this trend years ago when he tacked the firms focus from trading to asset management, part of which was the result of Dodd-Frank. His quote at the time 'You can run a hedge fund, but you just can't do it off of my balance sheet'. Interestingly enough, when asked what the one asset he wished he could have back it was Pete Muller's famously consistent Process Driven Trading, or PDT, hedge fund that was spun out in 2012. I'd want to keep something too if it never lost me money.

Pete Muller, circa 2012

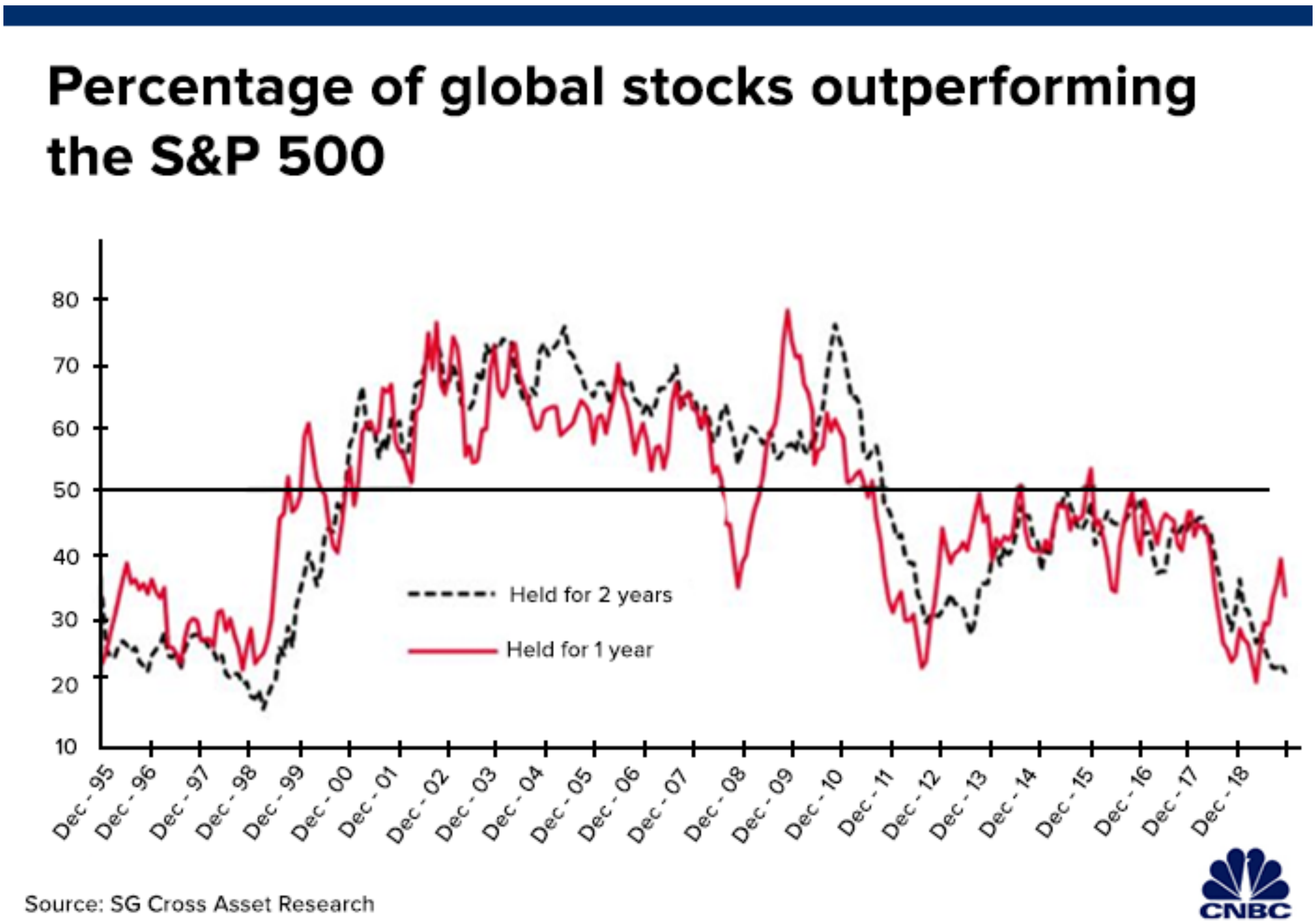

INDIA WINS THE IPO RACE
P. 80
THE BANK THAT ACTS LIKE A HEDGE FUND
P. 36
DANGERS FOR CITI IN JAKARTA
P. 56
AUGUST 2011
GOING SOLO
Morgan Stanley trader Peter Muller sets out on his own as Dodd-Frank reshapes Wall Street.

The ax has fallen on another one of Wall Street's most powerful who didn't adhere to the strict world of compliance, when it was announced that Mark Wiesman, head of Blackrock's global active equities, was fired for having a relationship with a fellow firm employee. Mark was on the short list of names to replace CEO and founder Larry Fink. He now says he 'regrets his mistake'. Aficionados of gallows humor, self-included, might say he was lucky because he was in charge of the dying side of the asset management business.

Active Assets Flowing South

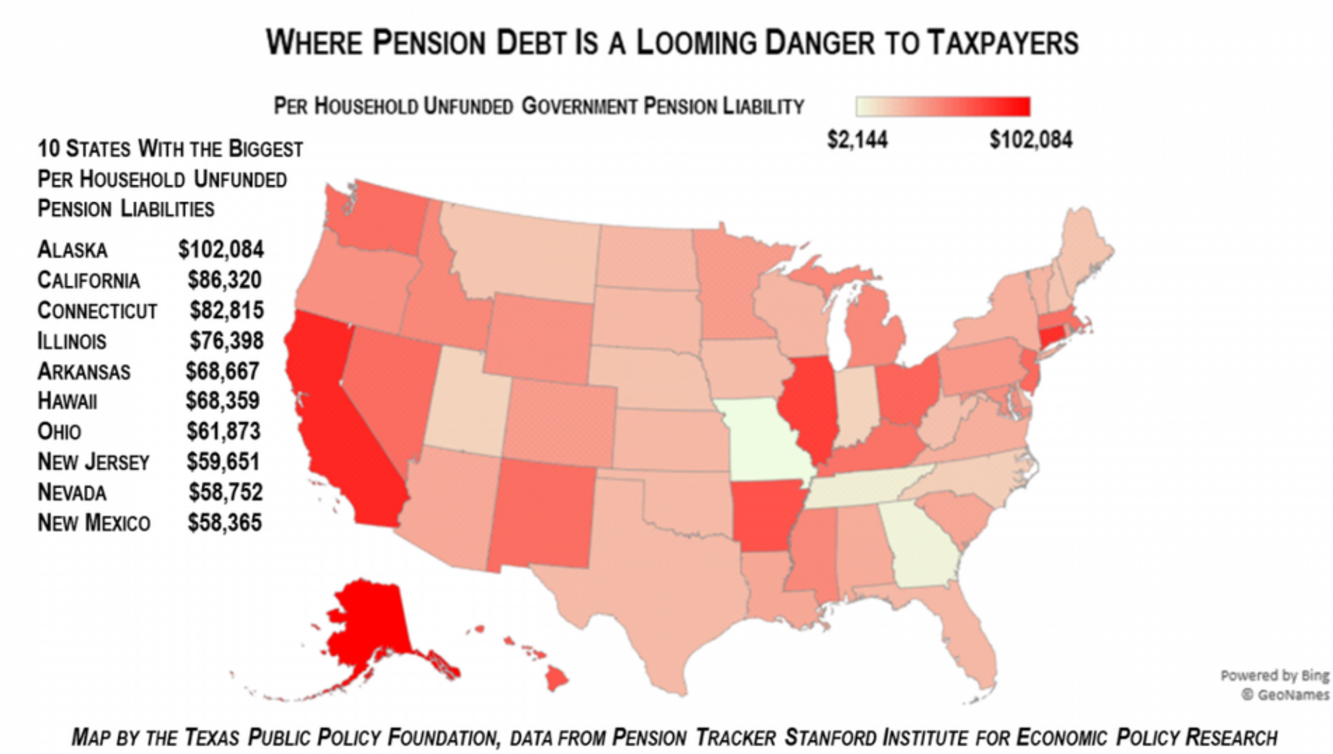


In related news, CalPERS, the Golden State's public employee retirement benefit system, has thrown in the towel on active management as well. This week, it was revealed that they have fired 14 of their 17 outside active managers, dropping the asset allocation from $13.6 billion to $5.5. They also fired 6 of their 7 emerging managers, reducing that side of the book from $3.6 billion, to a paltry $500 million. Charts like this help tell the story of why it's happening.



To keep things in perspective, CalPERS had total assets of $387 billion as of last Friday. Why should California taxpayers care? Because they are ultimately on the hook for shortfalls in the assets needed to pay benefits and in time any deficit will be coming out of their pockets. That's why more from California are saying hello to Texas, Florida, and Wyoming.

Not So Golden State



Longtime observer and pundit, Dennis Gartman, has ceased publishing the well-known "Gartman Letter". The daily markets piece had both devotees and critics over its 30-year run. We had a chance to enjoy it on and off over that time and always appreciated the meticulous nature of Dennis' search through the minutia for a market making point. Perhaps it's those trees he was always looking so closely at that kept him from seeing the forest. His parting words to investors? Go to cash! Enjoy the newfound freedom, Dennis.

End of an Era

A SPECIAL ANNOUNCEMENT REGARDING THE FUTURE OF THE GARTMAN LETTER:

After a great deal of thought and with an even greater deal of sadness, we have decided to cease producing The Gartman Letter as of December 31st of this year after three and one half wonderful decades of rising each morning at 1:00 a.m. to write and complete our duties.

During this time we have witnessed the advent and ubiquity of the fax machine; the arrival and even the greater ubiquity of the internet; the virtual demise of some of the world's great newspapers; the wonder of Microsoft Word; of Adobe Acrobat et al. We've lived through the fall of the Berlin Wall; the creation of the European Union; the rise and retirements of friends and clients; hurricanes and power outages and all the while having missed less than a handful of TGLs over those decades.

But there comes a time when retirement calls. My right hand is weary and is giving me problems, making daily writing a good deal more difficult than it had been in the past. Too, the simple sums of information available to everyone have made our efforts difficult and yet easier at the same time. Add to this the increased tax and regulation requirements and we've chosen to stop doing business as we have in the past.

We are thinking about our future...maybe a bi-weekly bulletin or perhaps podcasts and other technologies that may be available to us in the future to try to make certain that we are not immediately forgotten by our myriad friends in the capital and commodity markets. Also we like the television, radio and print interviews that we do and wish not to give that up and won't, if called upon. And, of course, our weakening golf game needs some far greater attention!

We want to take the time to thank everyone who has been a friend to TGL over the years and they are far, far too many to mention. This has been a truly wonderful experience over the decades and we shall always consider ourselves uncommonly fortunate. If the next decades are only half as great as the last three and one half, how lucky shall we be?

Diversions

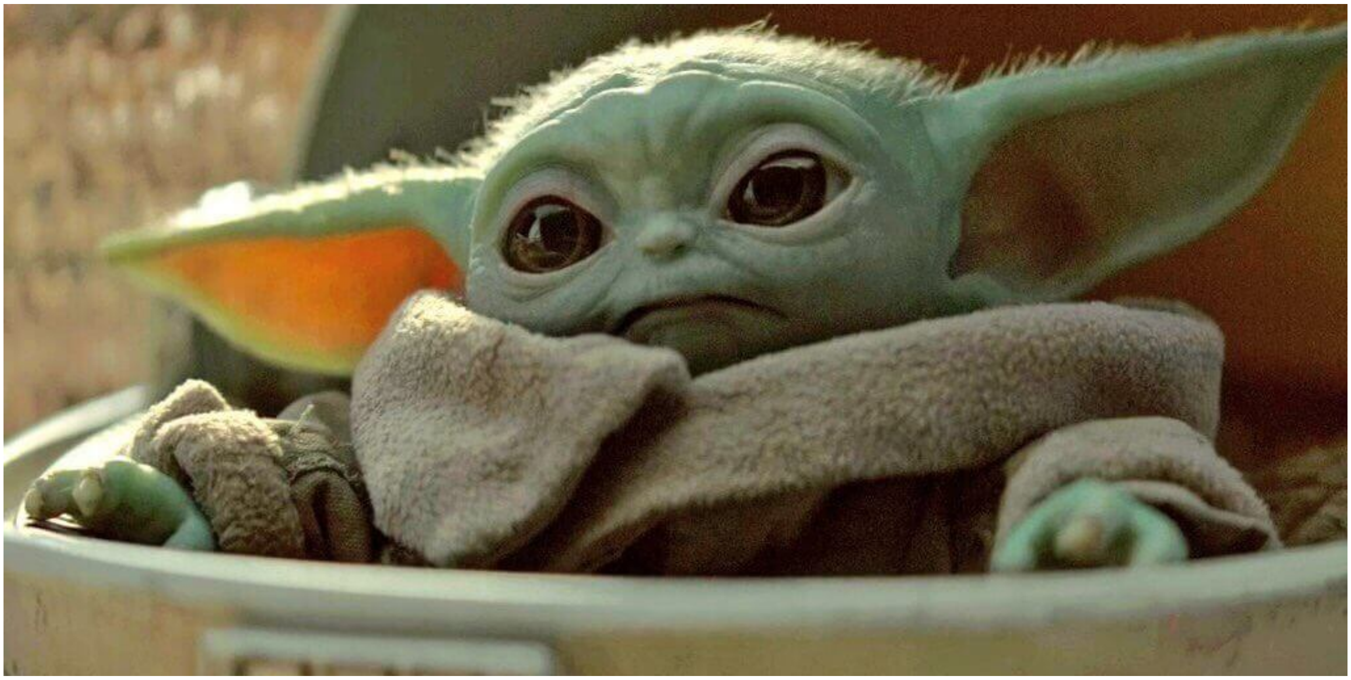
News flash from a guy who thinks that almost every single one of the mutant Star Wars movies over the past five years is trash, 'The Mandalorian' is just the opposite. Not sure who to thank at Lucasfilm for pulling it off, but the show works. The characters aren't as obnoxiously fake as in the past, the plot lines not as absurdly outlandish, and the cinematic production is really good.

Binge Watchable

Prior to turning the corner with 'The Mandalorian', I was famous for saying to my kids that my favorite part of whatever the last Star Wars episode is when the Rebels saved themselves from sure death at the Empire hands with some last-minute improbable plan that worked. To which I would further say, 'oh wait, that's how *every* episode ends'.

Full disclosure, this fully grown, forty-seven-year-old, single malt scotch drinking, golf playing, hedge fund manager of a guy, wept a tiny little man tear when watching a scene about the seeming end to Baby Yoda. Turns out the little guy has gone viral, especially with athletes and actors.

Living the Baby Yoda Dream



Source: Forbes

In related news, Star Wars creator George Lucas reached into his large sized wallet and pulled out $28 million to round out his residential real estate holdings in the Santa Barbara area beach town of Carpinteria. The property he purchased sits adjacent to the one he bought in 2010 for $20 million and currently has on it a Cape-Cod residence and guest house, with two acres of beachfront on Padaro. The full $50 million of 'Carp' real estate Lucas has taken down is a drop in his' $6.4 billion net worth bucket.

Watch Out for Whitey!

To give you an idea about the wide divergence in property values from Carpinteria to nearby Montecito, where Oprah, Robe Lowe, and 'The Dude' Jeff Bridges have homes, here is what $2.0 to $2.25 million buys you in each locale. First up, 'The Little Hill', then the town they named after the carpentry the local Chumash Indians did on their tomols (canoes) as they rested on the nearby beaches. For both houses, their rear is their best side, as it's difficult to even find an image of the front of either.

627 Romero Canyon Road

This 'charmer' sits on the far east end of Montecito and boasts 2,450 square feet of living space with 4 bedrooms, and 4 baths. On a price per square foot basis you are paying a little over $800. Being on Romero you get all the upside of living in the 93108 as well as getting to send your kids to the second-best school in town, Montecito Union. List price $1,995,000.

4614 Foothill Drive

With this home you are getting an extra 250 square feet of space, with the same number of bedrooms and baths. But what you are really picking up is 4 extra acres of upslope land to live on as you look out onto the Santa Barbara Chanel. The quality of education falls off a bit in this area, and buyers would want to factor in the potential cost of private school.

This house also has a lot more whimsy inside, highlighted by kitchen that just doesn't know what it's supposed to be, and a handful of pieces of art and design that pay homage to the traditional Mexican holiday of Dia de Muertos.

Kitchen Confusion

Between both of these locales sits what many would consider to be one of the great burger joints on the California coast, the Nugget is Summerland. The legend is large at this place as both President Clinton and President Reagan found their way to Le Nugget, as the upscale French would say, to grab a Crunch Burger. And now you too can sit in the 'Presidential Booth' where they both did. There is also the fact that there a couple dozen locals, self-included, who call the place our occasional watering hole. It's just like 'Cheers', but with an ocean view, and horses tied up out front.

Giddy Up!

Source: Noozhawk

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