Business First…

Before we jump into the substance of the week on Wall Street, we wanted to take the opportunity to announce that Stillwater has been approved as manager on two 'first loss' platforms. Full disclosure, strategies managed this way are more suited for risk capital than core assets. That said, when managed properly they can produce strong returns compared to what else is available in the market. Investment minimum is $100,000, and there is ample liquidity. Please connect with us if you are interested in learning more: contact@stillcap.com

The Economy

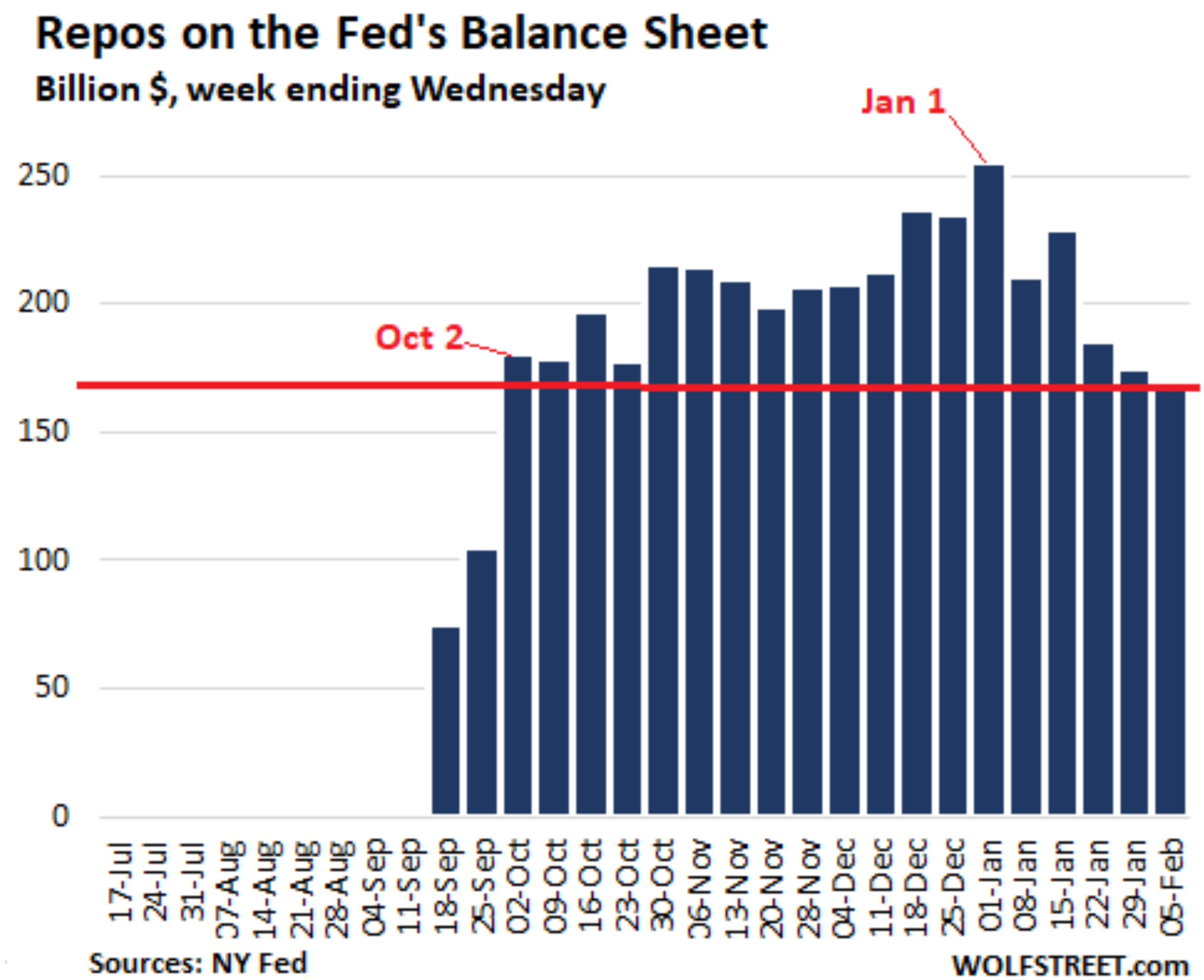
In terms of the economy, it's the Coronavirus and…everything else. And by everything, we mean everything. What do you care if global PMI is looking better when China and Japan are about to start shutting down provinces? Likewise, when those in the know start saying that the virus spread has peaked, the futures rally and with them the underlying equities.

As one client asked us the other day, why does the market keeps going up. We responded that this was a perfect scenario because a further outbreak will lead to greater QE. The flip side is that if we are nearing a top in terms of infections, the global economy is primed once again to take off. In a sense, this is heads I win, tails you lose. And in this case the 'I' is the equity market.

Can't Lose Proposition

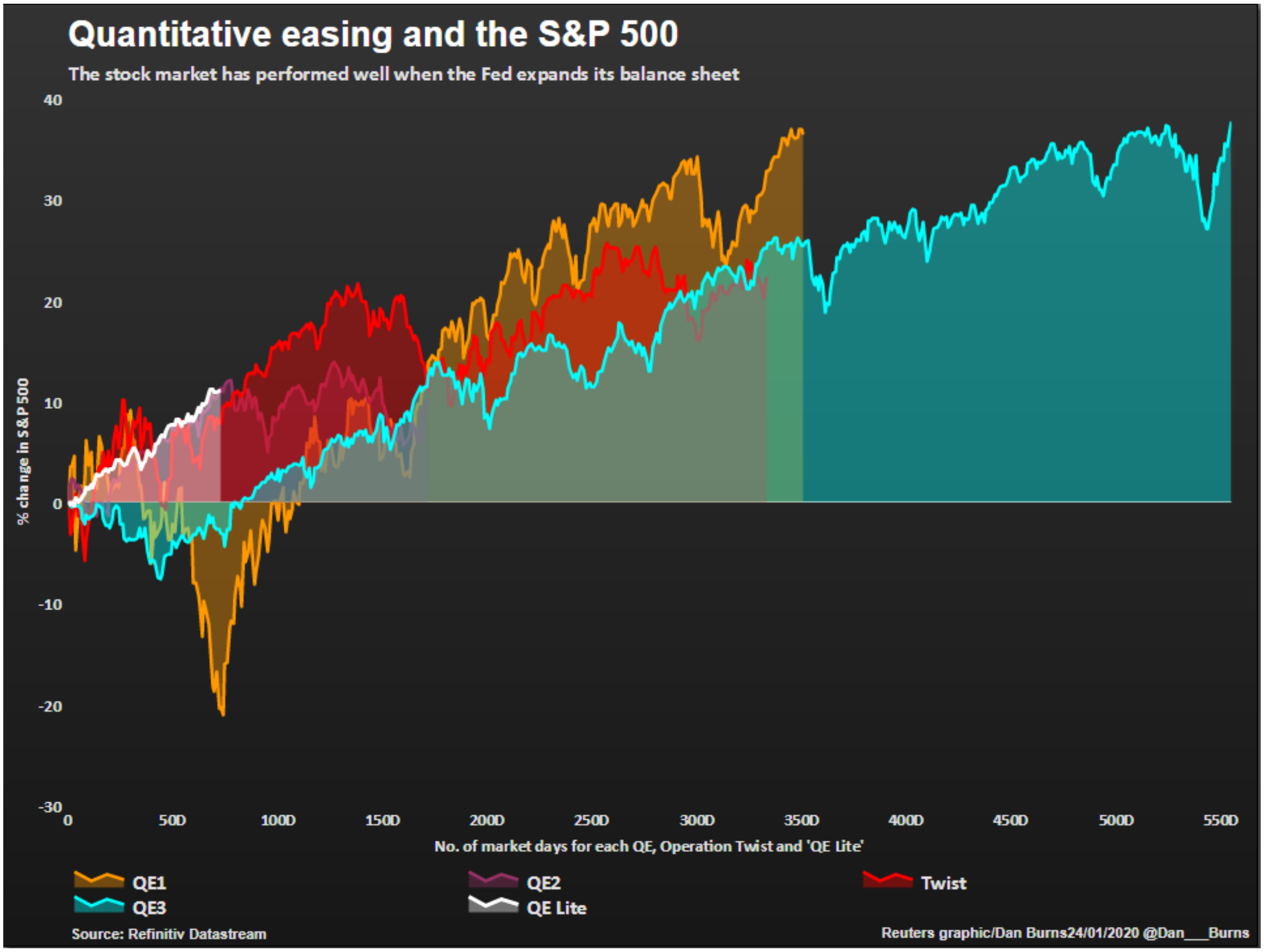
Speaking of QE Four, what happens when it ends? And when will that occur? To the latter point, it looks like it already has peaked out, at least judging by the size of the 'repo' line on the Fed balance sheet.

Are We Done?



If that's the case, is this now a While E. Coyote moment and the market is out over a cliff? Time will tell, but for now, the correlation between higher stock prices and quantitative easing remains extremely strong, and if you bought in, you have never lost money. But be careful out there, at least that's what Charlie Munger is saying. With 'too much wretched excess' out there, we are going to have 'big problems' down the road. Forbes gives you five more things to know about what good old Charlie said this week.

Back Up The Truck



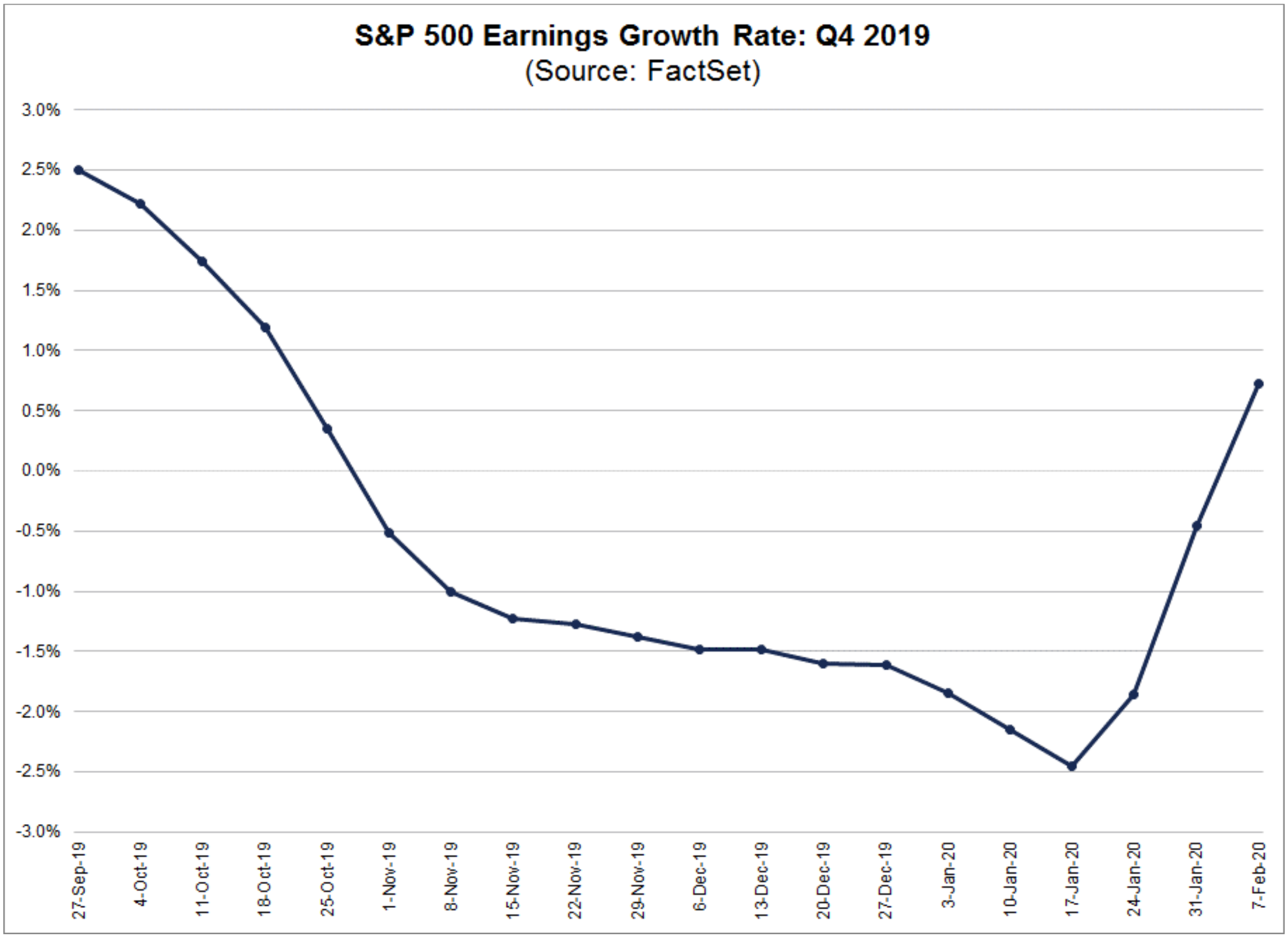
Earnings

On the actual earnings front, we had a few decent sized blowups. Some were China and Coronavirus related, some not. Forbes estimates that the number of domestic companies that have been impacted is around 400.

Trillions Served

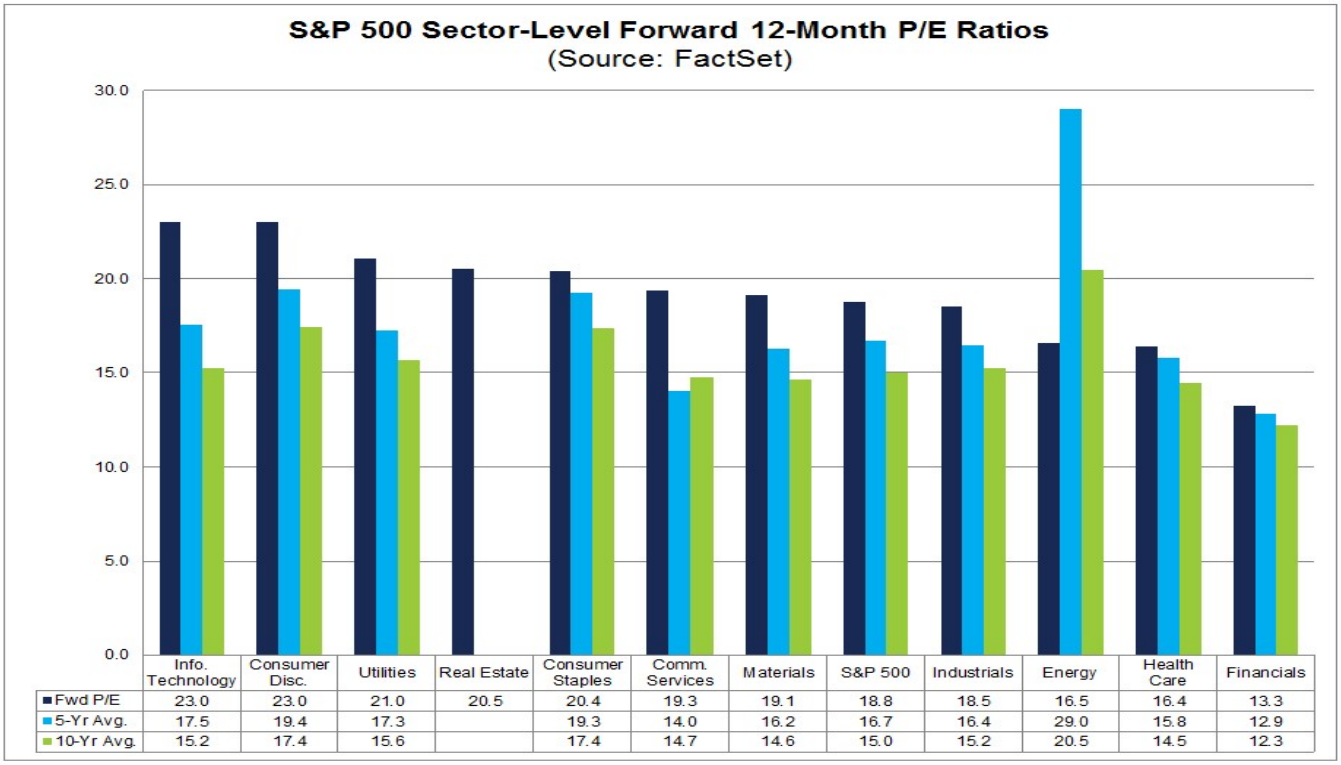
That being said, it looks like earnings in the fourth quarter of last year are going to show an increase of .7% versus the 2.5% contraction the market was grappling with in mid-January. That in and of itself is probably enough to support the now 4% increase in the S&P 500 so far this year. Compound that out through December, and we are going to be looking at another 30% increase in the broad market. And if that doesn't have some/most/all of the hallmarks of an asset bubble, we aren't sure what does. As always, FactSet does a great job of drilling down into the details.

Solid Rebound



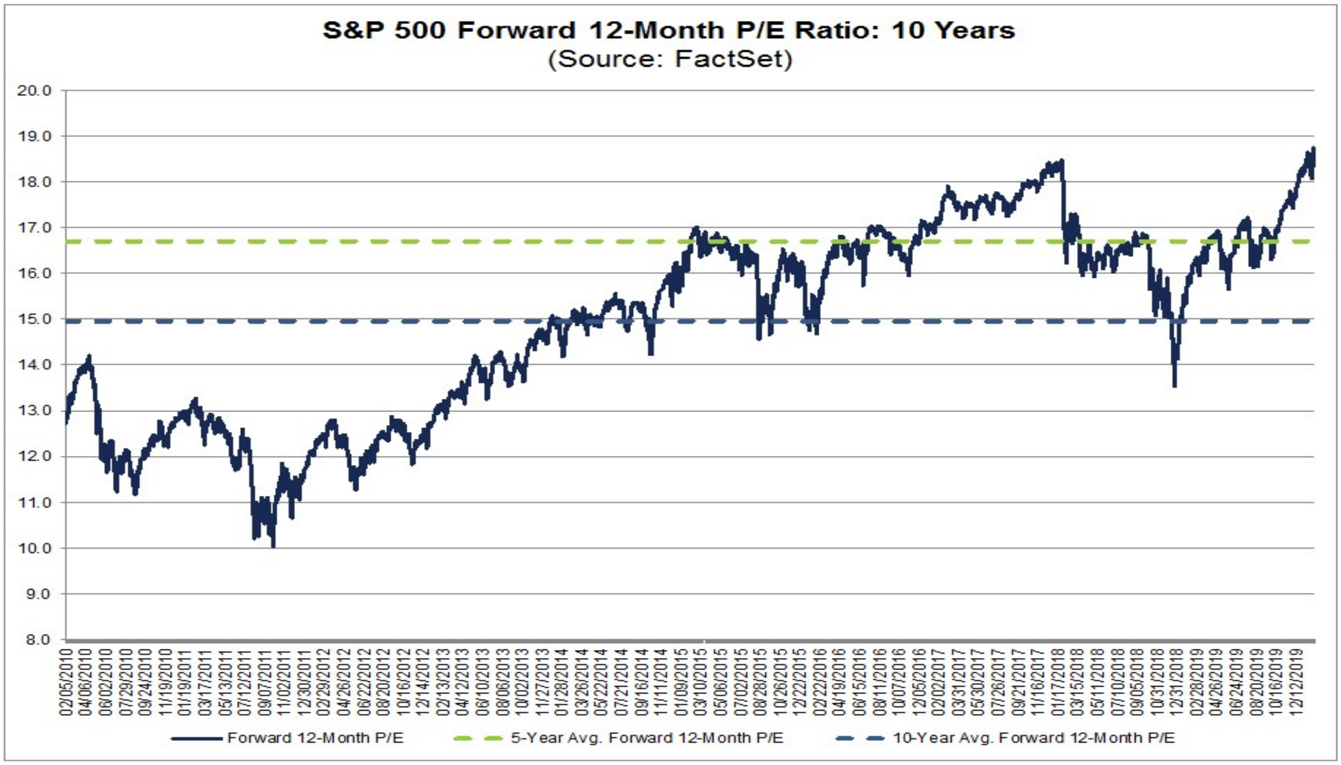
In terms of valuation, by most all measures, we are trading in what could be reasonably considered 'expensive' territory, as all sectors of the market aside from energy are trading above their five and ten year forward average. Which is the condition you are going to find when you get the rare combination of a strong economic tailwind, earnings growth, a president with levers to pull, and a Federal Reserve willing to pump money to keep the plates spinning.

Premiums Everywhere



The broad market too is showing signs that it is far from cheap. But given the backdrop we just described, what would you expect? And this is where some of us old(er) timers like to say, 'trees do not grow to the sky'. And even older timers say 'it's never different this time'. Either way, if you are sitting in cash or de-risked through hedging, chances are you have some feelings of FOMO, or worse yet, F$MO.

Reverse of a Sale

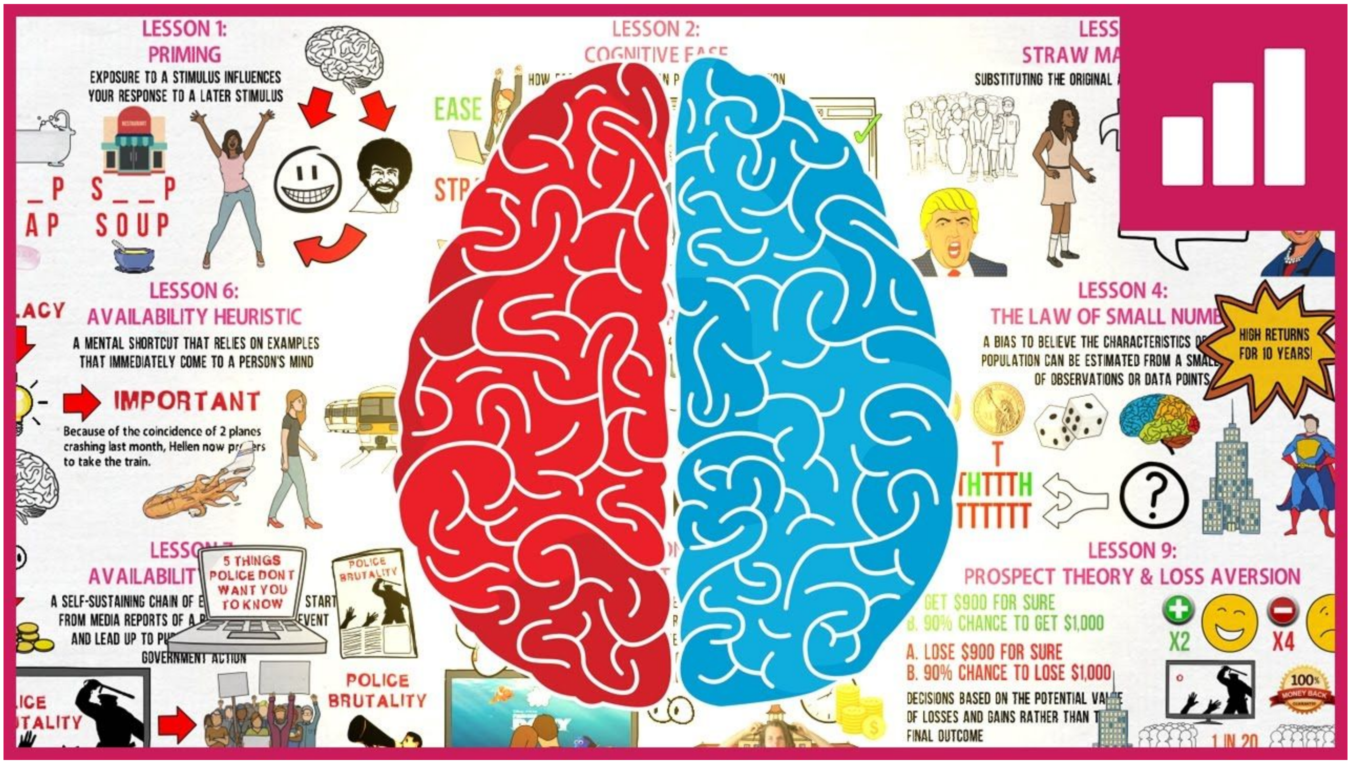


Markets

Before we drop into the cautious/bearish thoughts of Guggenheim's Scott Minerd, we wanted to make clear we are aware that one's opinion tends to anchor them to the news they are attracted to, and the message it provides. Look no further than Fox News and MSNBC as proof of this.

If you want to go farther down the path of understanding anchoring and the impact it has on our decisions, set aside an hour and watch the Ted Talk style presentation Nobel Prize winner Daniel Kahnerman gave to promote his book 'Thinking Fast, and Slow'. We point this out to make it clear that we share some version of what Minard had to say, much like we agree with Jeff Gundlach. So yes, we are anchored to caution right now.

The Fast & Slow Mind



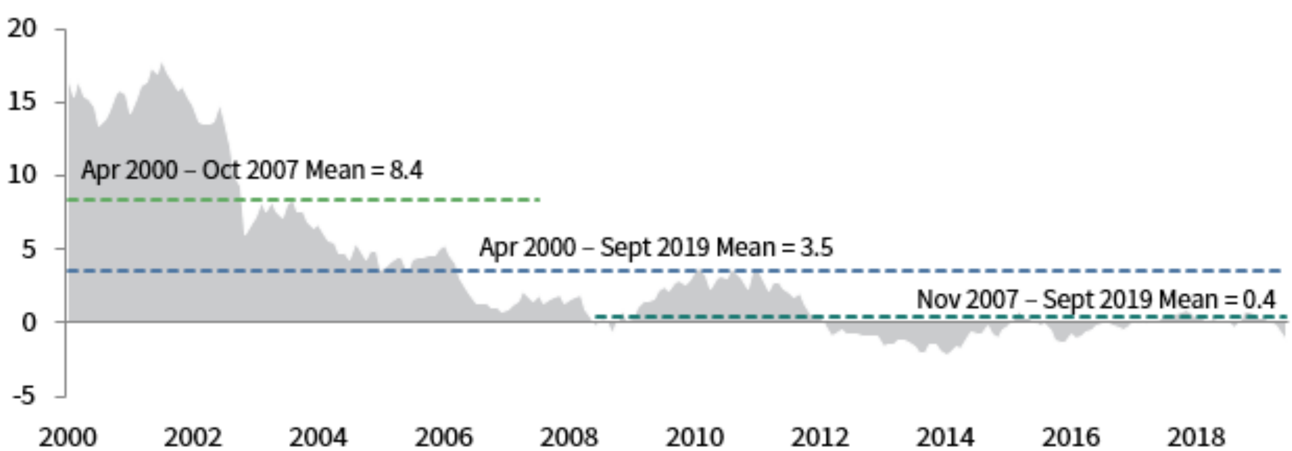
Back now to the thoughts of Mr. Minerd. In a widely circulated letter to clients, he again went back to his thesis that we are living in strange times and that it is either different, or we are just acting the same way we have in the past, and there is a dislocation of a serious magnitude heading our way.

"We are either moving into a completely new paradigm, or the speculative energy in the market is incredibly out of control. I think it is the latter. I have said before that we have entered the silly season, but I stand corrected," Minerd said at the end of his letter. "We are in the ludicrous season."

Guggenheim's Scott Minerd

Finally, we wanted to promote the work of Cambridge Associates and their Outlook 2020 Ten Investment Themes for the Coming Year. In it, they cast a cautious tone, as most should, given the straight up move markets experienced in 2019. That said, they aren't advising that you go to cash either. Most interesting to us was the thoughts and analysis they put together for the long/short equity category. From the headline forward, we agreed with everything hedge fund sector head, Eric Costa, had to say. It is indeed not 'game over', but yes, the rules have changed materially.

Diminished Alpha



Alternative Investment Roundup

This is the follow up to round one of our investment roundup from a couple of weeks back. First up was the mainstream, and now is for things more esoteric. Included this week are liquid alternatives.

Invesco's View of the World

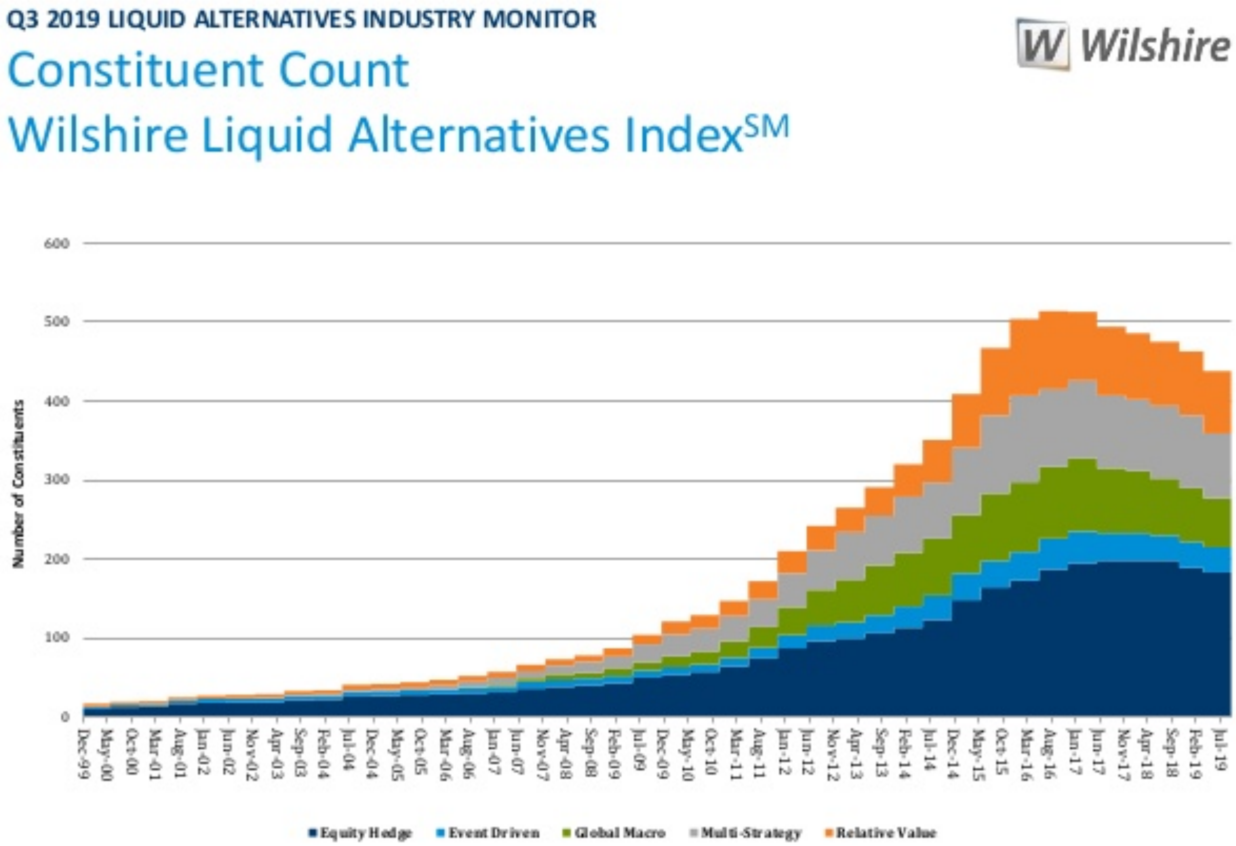
Invesco's alternatives investment framework

Investment objective:	Inflation hedge	Principal preservation	Portfolio diversification	Equity diversification	Fixed income diversification	Return Enhancement and Diversification
Alternative type:	Alternative Assets	Relative Value	Global Investing and Trading	Alternative Equity	Alternative Fixed Income	Private Markets
Strategies:	- Real Estate (REITs) - Commodities - Infrastructure - Master limited partnerships (MLPs)	- Market neutral - Arbitrage	- Macro - Managed futures - Risk-balanced, - Multi-alternative	- Equity long/short - Event driven	- Bank loans - Unconstrained fixed income	- Private equity - Venture capital - Direct real estate - Private credit - Natural resources - Direct infrastructure
Investment approach:	Long investments in various asset classes	Invest long and short in effort to generate positive returns regardless of market environment	Opportunistic long/short investing across global markets and multiple asset classes	Strategies that invest in equities on a long and short basis	Strategies that invest in fixed income and/or credit	Strategies that invest in private markets. Investments are typically illiquid and require multi-year lock up
Investment attributes:	- Inflation hedge - Equity like returns and risk - Current Income - Diversification	- Capital preservation - Consistent returns - Low volatility - Diversification	- Equity like returns with below equity risk - Opportunistic approach - Diversification	- Participate in equity market upside with reduced downside risk	- Boost current income - Protect against rising rates - Opportunistic approach - Diversification	- Seek returns above those in the public markets

For illustrative purposes only. Not a recommendation of a strategy for any particular investor.

Let's start our tour off by taking out the ugly stick on a category near and dear to our heart, liquid alternatives. We say near and dear, because the author was part of the early movement to create alts strategies for the masses. Sadly, over time, this relationship has turned toxic, as what Wall Street set out to achieve did not come to fruition, and the results have now ruined things for those of us who are capable practitioners. That said, we believed so much in liquid alts, we dedicated an entire page on our corporate website for alternative education. It includes almost every relevant white paper on the subject from Goldman Sachs to McKinsey & Co.

A Crested Wave



The bad news for those involved in these strategies, is that Wall Street did you no favor by turning its magic production machine on, thinking they had anywhere near the talent available to fill the shelves. And what you got was middling to mediocre returns. Assume for a moment that you are a Merrill Lynch advisor, and five years ago you read everything Mother Merrill produced on the subject and put client assets into liquid alts. Today, you would be defending how the following could have done so poorly as here are the average returns as reported by Morningstar.

Managed Futures:	(0.16%)
Long/Short Equity:	3.41%
Options:	4.67%
Long/Short Credit:	2.69%
Multi Alternative:	1.39%
Market Neutral:	0.48%
Multi-Currency:	0.51%
Bear Market:	(17.52%)

That's right, for all the whooping and hollering about the need for diversification in the portfolio and the benefits of alts, the overall category of liquid alternative did no better than most straight forward bond funds. As we have said many times, be better people, before you draw us all into extinction.

Don't Be These Guys

Diversions

With the exception of California, most of the west, and much of the east is getting a pretty good dumping of snow this year. And when the mountains call, they call big this time of year. With that, we give you some of the best in terms of off the radar resorts, lodges worth the effort, some nice real estate, and one epic bar in Squaw Valley that has survived the test of time.

The Mothership

First off is our ode to off the radar resorts, and with that we are going to pay homage to our home course of Red Lodge Mountain on the southern border of Montana and Wyoming. This place gets special mention right now as they just got slammed with some serious fresh snow last week. So much so, that the narrow road up the hill had to be closed down. If you are in need of accommodations, we have a place you might like.

Legit

As an ode to our New York readers, we wanted to provide you with something in the Adirondack Mountains that checks the boxes of cross-country skiing, a lodge of elegant distinction, downhill skiing nearby, and nighttime snow shoeing. With that, we give you the Garnet Hill Lodge, in North River, New York.

Garnet Hill Lodge

North River is a short hour and a half from the Empire State's most revered winter destination, Lake Placid. Currently there is a property for sale on the lake of notable distinction, with an asking price to match. The 'residence' in question is actually the Camp Midwood, and can be yours for just under $8,000,000 million. Broker Merrill Thomas put together an epic video tour set to music that almost caused us a seizure.

Camp Midwood

We wrap up our winter tour of the mountains with a story the San Francisco Chronicle ran this week that highlighted the life and times of 'The Chammy' at the base of Squaw Valley. Born in 1969, the bar and restaurant is celebrating its 50th year of serving up memories while becoming the mountains unofficial museum. While not the easiest place to find if you have never been there, I can say with certainty, that getting there is worth the effort. If after a long day on the mountain you can put your back into one of the Adirondack chairs on the deck around the fire and look up at KT-22, sipping a beer, I would say you have lived.

Suns Out, Buns Out

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