

## *Populism's Wrath*



With asset prices up, especially those of the risk variety, and unemployment through the roof, a big debate has opened up about the wide difference between how Wall Street is seeing things versus the pain felt on Main Street. Are we headed for a dustbowl depression where guys like Tom Jode fight the populist fight? Reminding the world that ‘wherever there is a fight worth fighting, I’ll be there’? Or are we going to be singing All Right Now, the de facto Standard fight song, in four months? The answer is to that ethereal question is what makes a market.

Irreverent as Always



## ***Markets & The Economy***

This week we marry the Markets and the Economy, because the debate we mentioned earlier between Wall Street and Main Street is at the forefront of everything. And by saying everything, we mean everything. Warren Buffett added fuel to the debate last week, when during Berkshire's virtual investor meeting he mentioned 'the extreme consequences' of Fed action. Because when the moral hazard card is played, and central bankers start picking winners and losers, traditional lines in the sand become obscured.

Everything on the Table

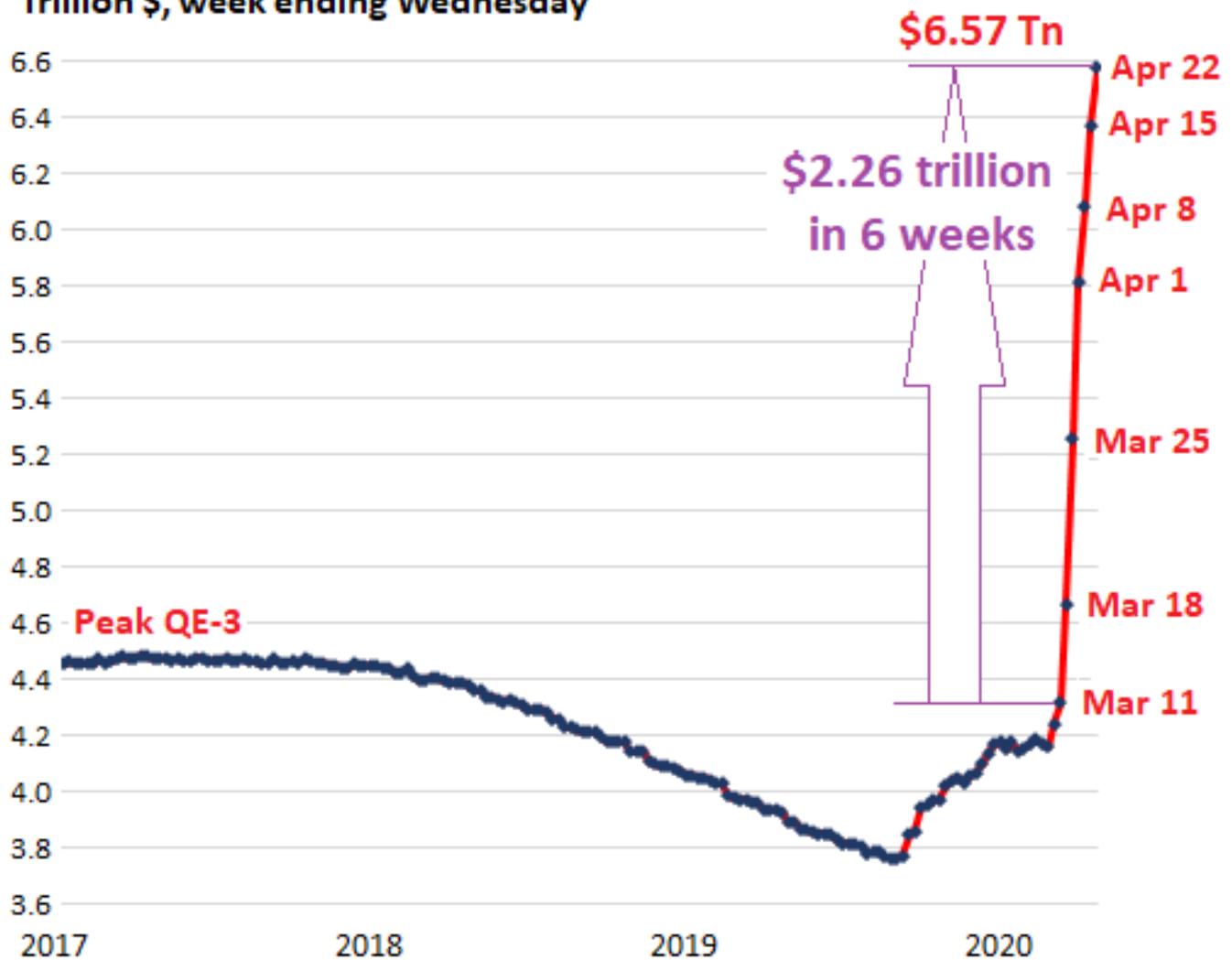


This morning, we got a further warning from Mohamad El-Erian, when he talked about the once clear economic picture now being a mixed-up jigsaw puzzle. He laid out a great image of the 'win win' of situations for markets right now. Equities win if things get better, and they win if things get worse because the Fed Put can get even bigger. And the latter is batting 1,000 when it comes to successfully backstopping asset prices.

The Hose is On Full Blast

## Total Assets on the Fed's Balance Sheet

Trillion \$, week ending Wednesday

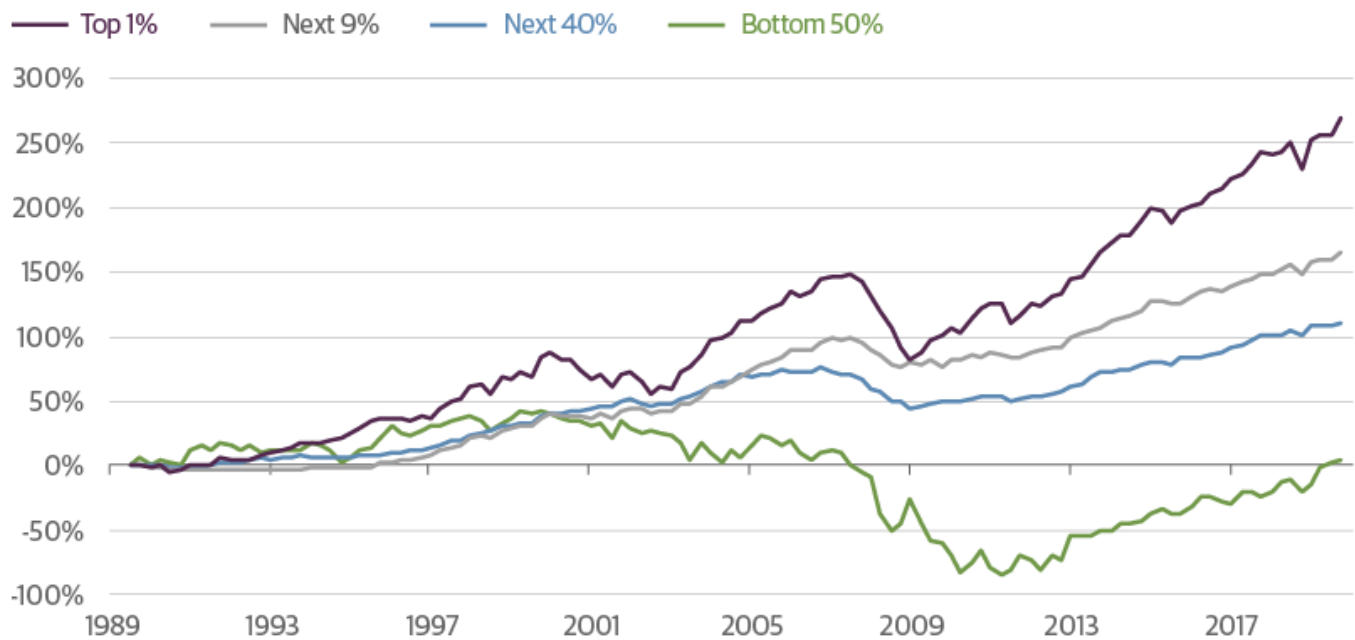


Source: Fed Board of Governors, St. Louis Fed

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The Global CIO for Guggenheim Partners, Scott Minard, penned a piece two weeks ago titled 'Prepare for the Era of Recrimination', which included his thoughts that the recovery from Covid is going to take far longer than the market is pricing in. He also pointed out some of the very real challenges for the lower rungs of the societal working class. Bottom line in Minard's view, and we can't argue otherwise, the lowest 50% are going to find it far more difficult to recover than those in the 1%. Which should come as a surprise to very few.

Highest Paid v. Lowest Paid



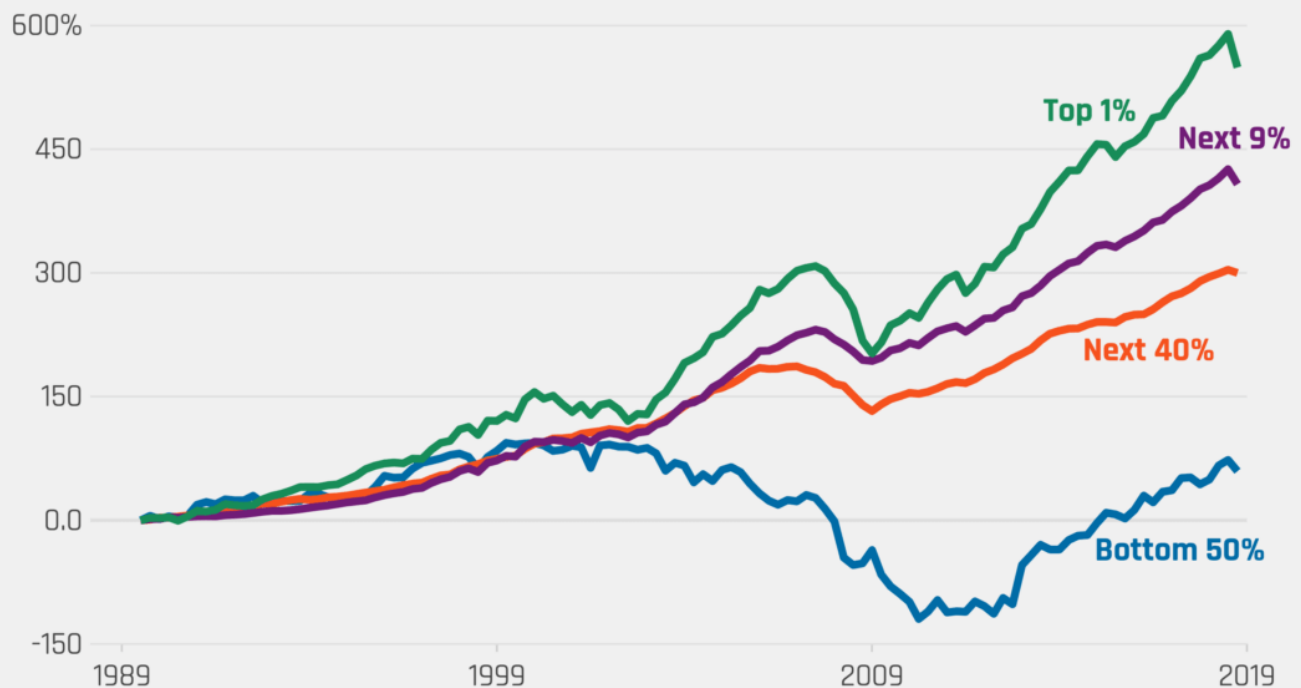
Aside from wage growth stagnation at the lowest levels, there is also the aspect of asset ownership. While the Fed may be on the watch to ensure that companies with questionable balance sheets don't go under, the risk emerges that they become 'zombies'. And by that we mean still upright and functioning, but barely recognizable on the inside, with far fewer employees. These are most likely the same ones making the least amount of money. If that's the case, they probably don't own any of the same assets the Fed just re-flated. A quandary with very long-term implications.

## Another Wide Delta




## The top 1% have seen a nearly 600% increase in wealth since 1989

Cumulative wealth growth in the United States between 1989-2018



Source: "Distributional Financial Accounts: Levels of Wealth by Wealth Percentile Groups," available at <https://www.federalreserve.gov/releases/efa/efa-distributional-financial-accounts.htm> [last accessed August 8, 2019].

 Equitable Growth

### *The Short Side*

Last week had us in a couple of great conversations with hedge fund allocators and practitioners of the art of short selling. Both painted an interesting picture of where those of us who believe we have skill in that department sit in the world. One of the best quotes we heard was when someone who knows the business well referred to our cohorts as the Toys of Misfit Island. We countered that we prefer to think of ourselves as old Jedi masters, and see the short sale as a light saber, a more 'elegant weapon from a more civilized age'.

"If you strike me down..."



The other conversation we engaged in, and one we hope to further in the coming months, was with one of the most well-known short sellers on Wall Street, his name held in confidence only because of his high profile. We spoke for a while about the changing nature of our business and how the information flow is so much different than it once was. There is also the nature of competing against indexes and algorithms.

At the end of our talk, he asked us for our best idea. The reality, we said, was that the best idea now is to have covered the best ideas of the past few months. With the Fed in command buying junk ETFs, you can get your face ripped off shorting individual names. Case in point, today AMC Entertainment went up 50% after a rumor circulated that Amazon might make a bid for the company. It is up 150% from the lows. Good luck standing in front of that move.

Covid Victim or Phoenix



We mention the short side of the ledger because Stillwater has put the final polish on the short selling list of ideas that we have in reserve, and intend to put on from time to time as both generators of Alpha as well as to hedge. The list contains more than 150 names, across all sectors of the economy. It is available to all clients who are interested, as well as to other hedge funds interested in outsourced short selling services. If the above thoughts and commentaries are at all accurate, a straight long only portfolio is going to be challenged in the months and years ahead. Having the conversation about possible strategies costs you nothing.

Down is Faster





## ***Diversions***

In an unforeseeable moment of good timing, I am now part owner and investor in a localized foods business that focuses on specialty nut-based products and home delivered meals and meal kits. The latter was supposed to be the driver of the former, but when Covid hit, the latter became the item most in need right now. So while the rest of the world stays sheltered, we have been taking our culinary clients on a round the world food tour. This week's stop is the southern United States, and all the richness that goes with it.



For those that can't get to Harbinger Foods this week, here is the menu with tips to make these dishes your own...

First up is the comfort of Carolina Pulled Pork. While best prepared on a smoker, you can get very close to home with a roasting pan, oven, and liquid smoke. Just please don't tell anyone you got that tip from me. I liked the simplicity of this recipe from Susie Bulloch and her Hey Grill Hey website. I also liked that she made the distinction between western and eastern Carolina BBQ dialects.

Devine Swine





Traveling further south, we get into the low country areas near the coast. One of my favorites dishes on the menu this week is a fish stew from the lower Carolina region. This recipe from Fine Cooking is a little bit on the technical side, but well worth the effort. I would scrap the aioli and buy your own, as the upside to this downside ration is not in your favor.

## Lowcountry Cuisine



While we aren't fully decided on which to offer, smoked back ribs or jambalaya, we are going with the latter for now. Similar to the aforementioned fish stew, this is from the comfort class of food with a savory rice base, andouille sausage, peppers, and shrimp. The dish will be accompanied with a bottle of our signature Healthy Lifestyle Hot Sauce. Commander's Palace we are not...yet. But the food should still be pretty amazing.

## The Legend





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