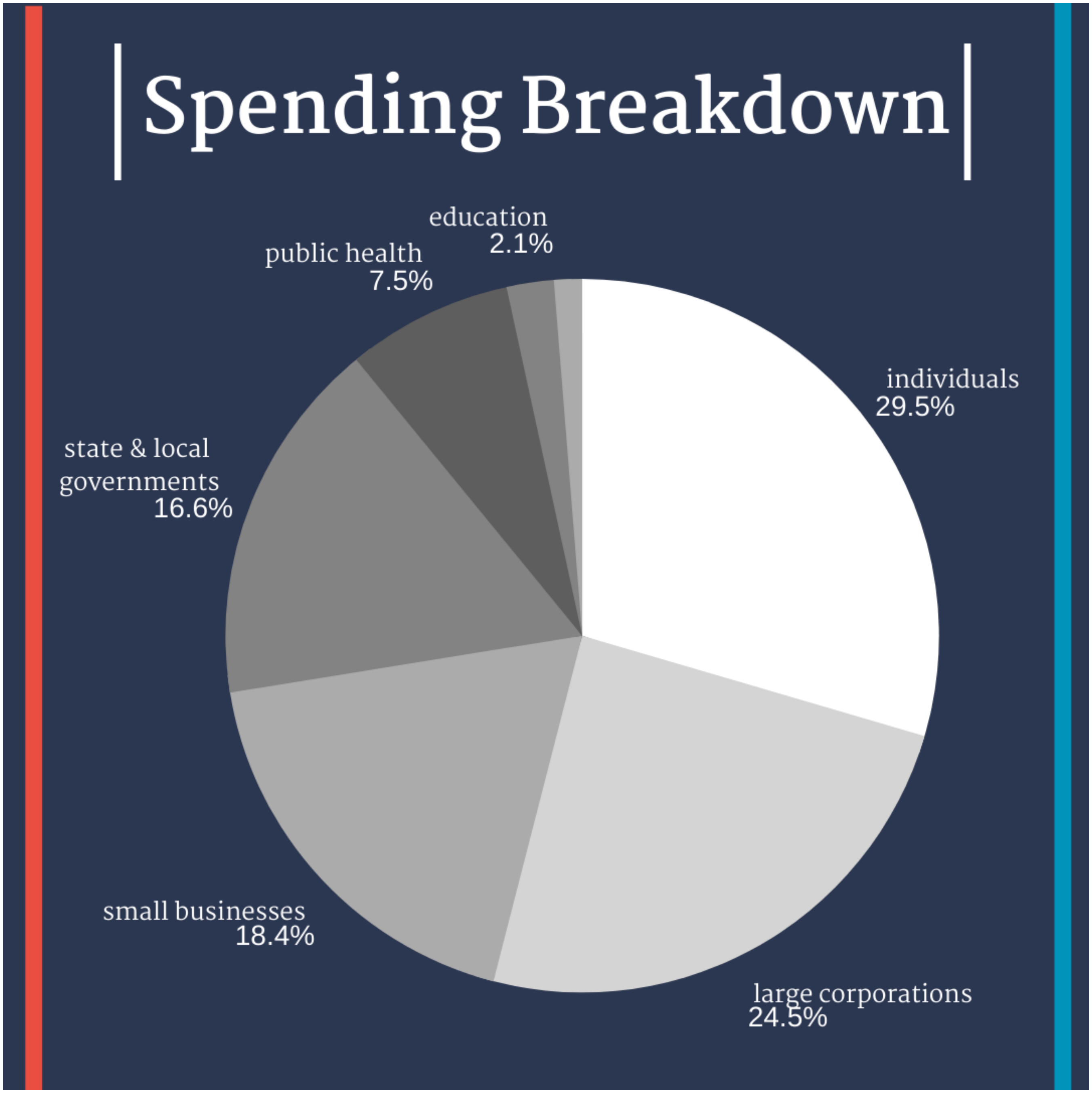
Happy Birthday to Us!

We mark the third year of This Week in the Markets today, and count this as edition number one hundred and forty-four. Not bad for a publication with tiny roots and big ambition. We thank everyone who has come along for the ride with us and hopefully learned something about the markets, economy, asset management, and life outside Wall Street along the way. Thanks again for your patronage and readership, it is very much appreciated.

The Economy

There is a bull market in hyperbole on Wall Street right now. Everything is the biggest this, or the worst that. And for good reason, we are in rare place in financial history. Last week we reached a new milestone in that regard when Treasury Secretary Steven Mnuchin announced that the government wasn't afraid to take losses on the emergency lending program in the CARES Act. Which to the market is saying, when the lender of last resort doesn't mind taking a hit, be a better buyer!

A Very Big Pie



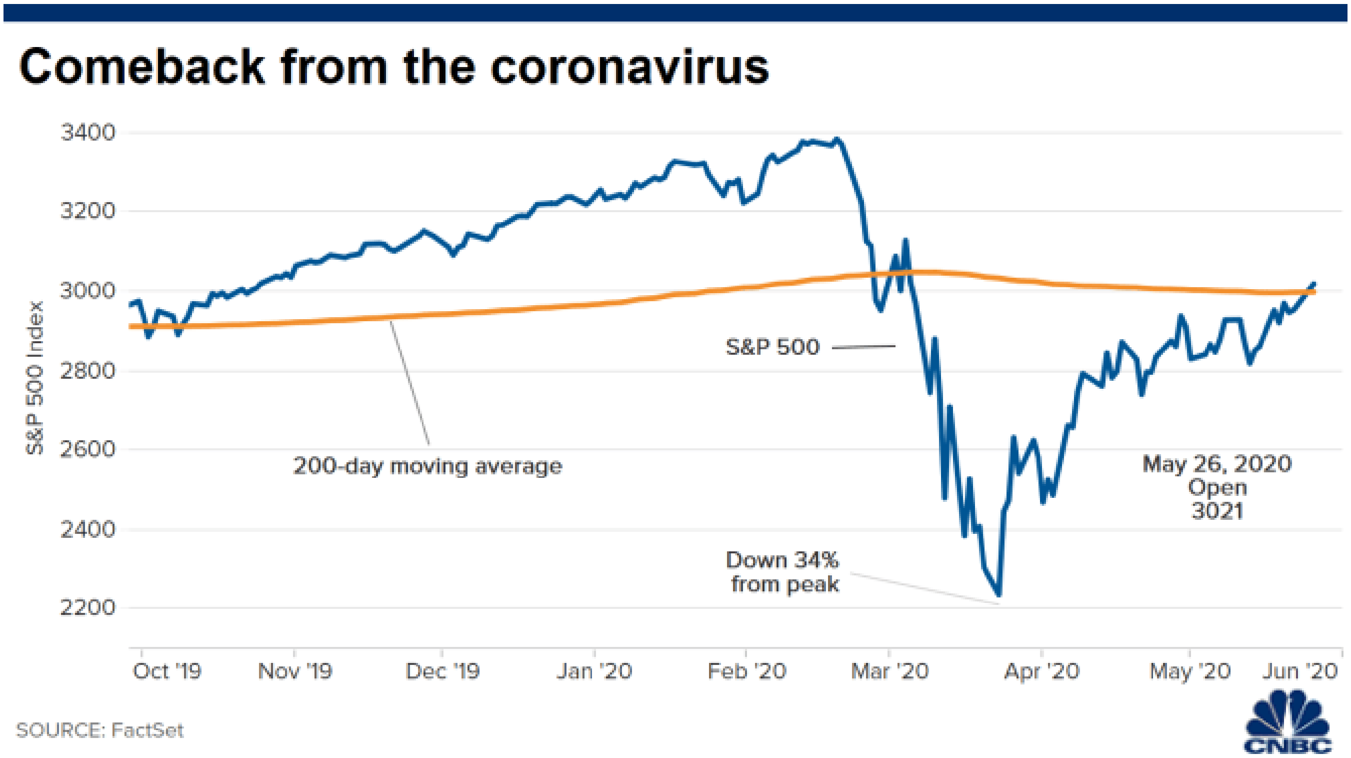
Outside of comments made by central bankers, we are beginning to see signs of stabilization in some parts of life. On Tuesday the Conference Board released it's monthly reading of consumer confidence and the freefall experienced in February has ended. In another positive sign, new homes being sold went up 1% in April, against an expectation of a 20% drop. Locally, we can confirm that the trend to get out of the big city and into something more rural is real. Santa Barbara, where we have been calling home for the past 15 years, has seen a huge increase in requests for showings and higher end rentals. Lake Tahoe has seen a similar trend as buyers want to 'get the hell out of where they're at'.

Nice Trade

Markets

Up until a week ago Monday, this market was par for the course in terms of recovery form a heluations cathartic bottom. The most protected areas like technology were at new highs, cyclicals were struggling but on better footing, and oil finally got off the mat albeit very bloodied and bruised. Then in one short moment markets caught fire and asset prices have rallied materially. The trigger was (very) early positive results from Boston biotech company Moderna's COVID vaccine. Doesn't matter that it was a small sample, this was a lightning bolt to dry tinder. A week later we are up 5% in the overall market, and a lot higher in the hardest hit sectors.

Real Rally?



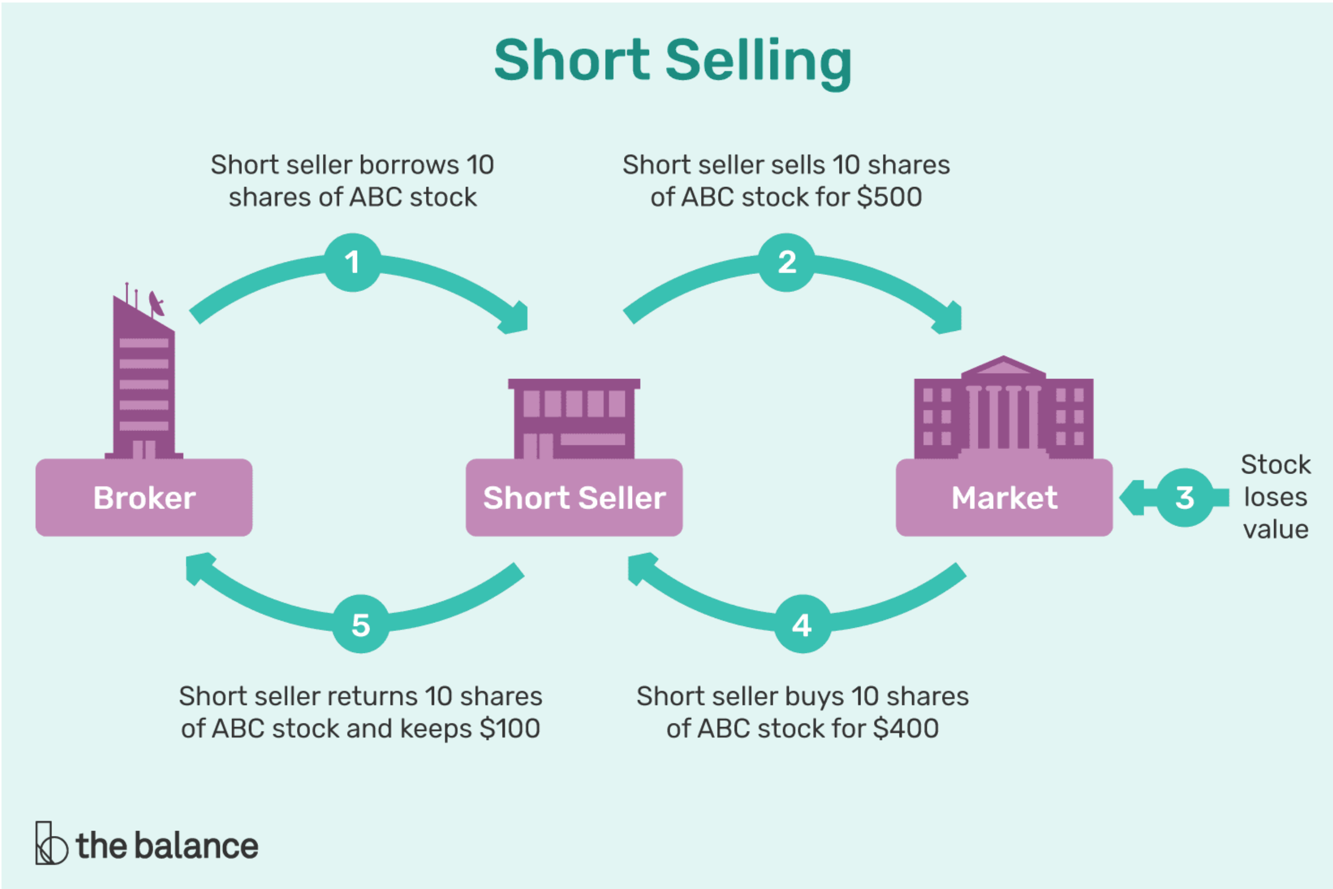
Given everything we are seeing in terms of busted balance sheets, consumer strain, and a new day dawning for how we are going to function, down is the 'obvious trade'. So much so that nearly 70% of the money managers who responded to Merrill Lynch's big money poll think this rally isn't real. As we have found out the hard way in the past two weeks, the theory sounds accurate, but the practice of fighting it out in this tape is getting tough.

'Reading the Tape'

Hedge Funds & Liquid Alts

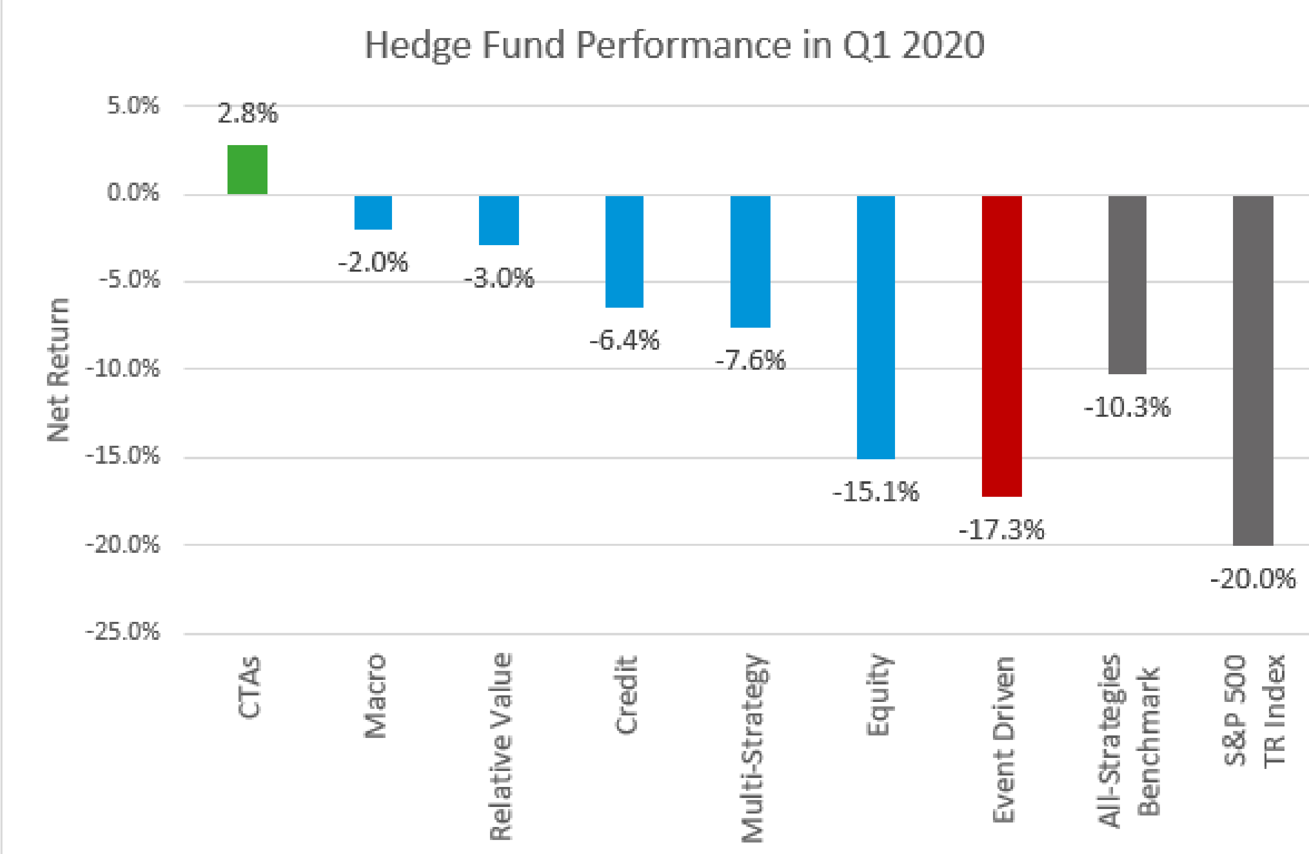
The numbers are in, and once again a majority of hedge funds didn't act as promised in the March and April downturn. This has been a challenge for some time in large part because the short side of the portfolio is difficult to execute. For the uninitiated, here is a primer on the craft of betting against stocks and markets.

Short Cycle



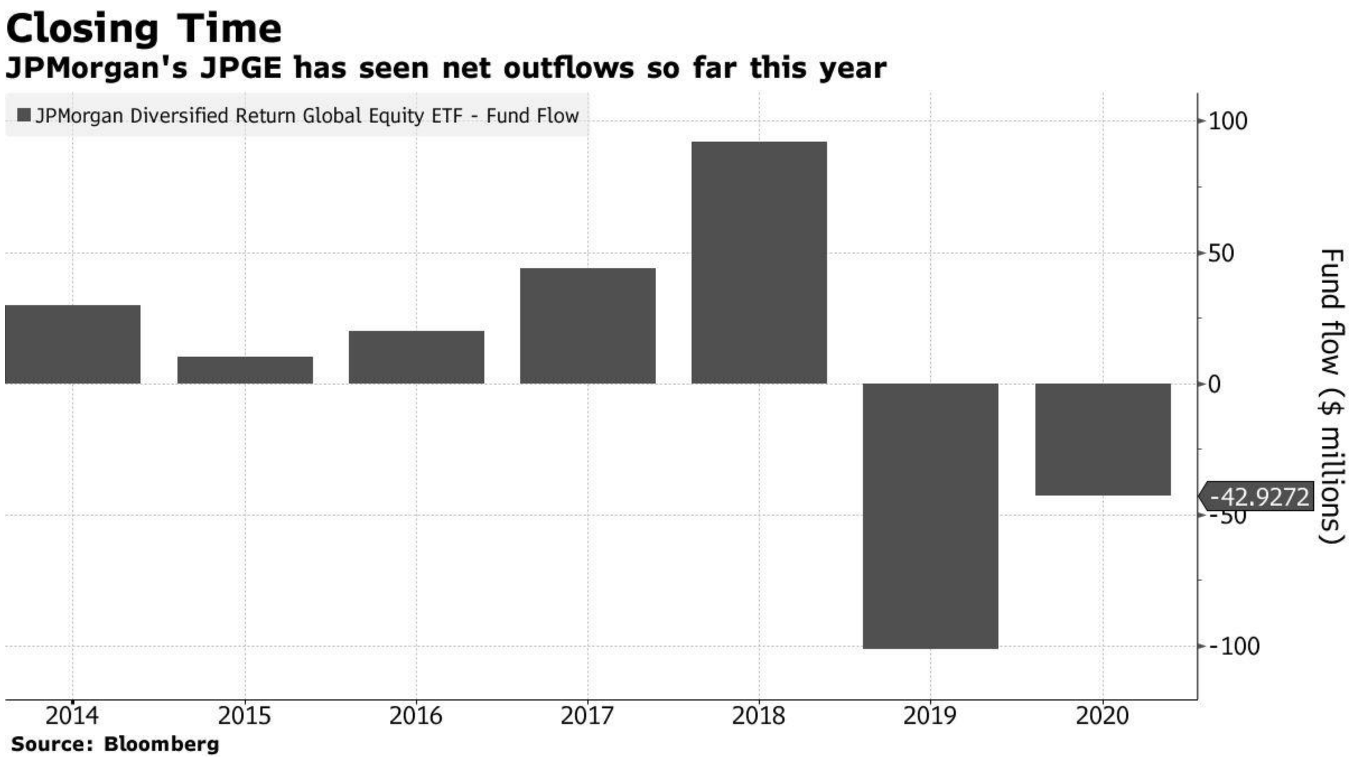
But all was not lost this go around as hedge funds that are built to make large returns when the Black Swan shows up, did just that. Several 'tail risk' strategies had astronomically profitable months. Others deep in the black were macro funds who operate from the top-down and can throw a lot of leverage at a trade. To our fellow colleagues in the hedged equity world we say, participating in 75% of the downside is no way to get to heaven. Try to be better next time, assuming there is a next time as long/short equity assets are down by 20% over the past year.

Mixed Bag of Returns



The poorer cousin of hedge funds, liquid alternatives, is also getting taken out to the woodshed, and this time some aren't coming back. On top of several other closures or re-purposing's, J.P. Morgan is shutting down several ETFs designed to mimic equity hedge fund performance. Looks like the design flaw is that to be a success in the business, you need to create product that people actually like and want.

Elevator Down



As an aside, we write a lot about hedge funds and liquid alts because that has been our DNA since 1996. It's been what we know and to a certain extent the family that we are part of. And like any family, while we are supposed to love all members of it, there is simply no way that is going to happen. While there are a handful of very talented managers out there running real institutional grade strategies, they are outnumbered by red headed stepchildren conceived out of Wall Street's bad idea factory. Which can make for some pretty messy holiday gatherings. Here is how the big players are adapting to the new reality of doing business.

Pass the Peas

Wall Street

Warren Buffett and Berkshire have sold out of 85% of their long-held position in Goldman Sachs, which was first entered into during the Global Financial Crisis. The original deal was a good one for Buffett, offering a fat 10% dividend and convertible warrants. Over the past five years the investment has been pedestrian at best, materially underperforming the KBW banking index for most of the time.

The 'Evil Empire' Underperforms

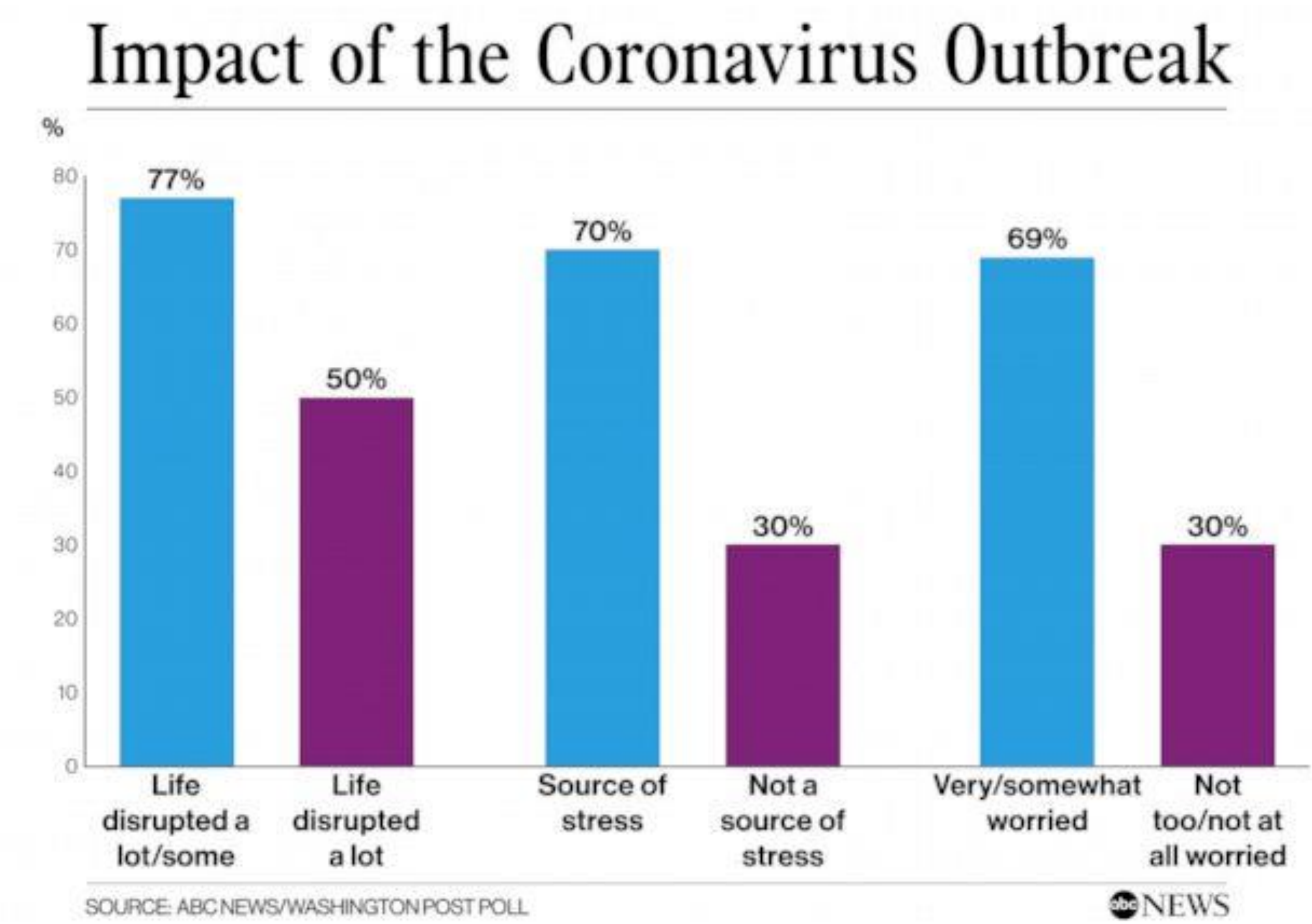
How Buffet made the investments is one of the great stories of Wall Street lore, and was told to us by then CFO David Viniar, a guy who simply makes you want to be in the business. Two great pieces including Warren calling up on a Thursday at Noon and giving the Goldman management team six hours to say yes or the offer went away. The second great piece occurred when Lloyd Blankfein called back to accept the deal and was told by the secretary at Berkshire that Mr. Buffet was at Dairy Queen with his grandkids and that he would call him back later. He did, and the deal got done.

Stay Frosty, Warren

Diversions

There has been a flood of mental health stories coming out of COVID-19, many of which are focusing on conditions that might have existed in the recesses before that have now bubbled to the surface. With that comes the risk that some of the newly available 'resources' aren't fully baked or have been rushed to market. What charts like this show is that there are plenty of new minds and bodies looking for the help.

Anxious Times



While athletes are always in vogue in terms of products they represent, there are three very high-profile ones that we think have done an incredible job of getting out front on the subject of anxiety, depression, and experiences being bi-polar. The three include the most decorated Olympian ever, Michael Phelps. The 'King' LeBron James. And an NBA All-Star we hold near and dear to our Ucla heart, Kevin Love. We not only applaud; we cheer their efforts to get people in front of the issue to avoid hitting crisis moments.

King James

On a personal note, having been diagnosed as bi-polar several years ago, I wanted to add my own counsel and experience on the subject. While hesitant at first, an ESPN article popped up on my browser this morning that dove into longtime football coach Brent Guy's thirty-year silent struggle with the condition. If he can go out as publicly as he has, what's the hurt in adding my own thoughts.

A Very Real Feeling

When I was diagnosed by my psychiatrist it came with the caveat that there are levels, and that mine was on the milder side. That said, we went through the process of doing the work and finding the right combination of meds and lifestyle that help smooth the edges. It's still a lot of work, and there are always reminders of failure. But it's worth the effort, and plus, what else are you going to do? Aside from the recommendation to work with a psychiatrist who has a specialized background, don't be afraid and hide in the shadows. Loneliness is its own special beast, and it loves to hang out with other far worse conditions.

The Silver Fox Turns Eighty

Longtime reader of these pages, and the man who taught me the craft, Bob "the Silver Fox' Goligoski turns eighty this week. All six of his grandsons have sent their well wishes and old photos, as have his sons, self-included. It's been an incredible run over the decades, with no beach too far, no mountain too high, or no overnight flight to Asia too long. Thank you from all of your family for the love and support over the years. Godspeed, traveler.


Bobfest 2019
Pebble Beach

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