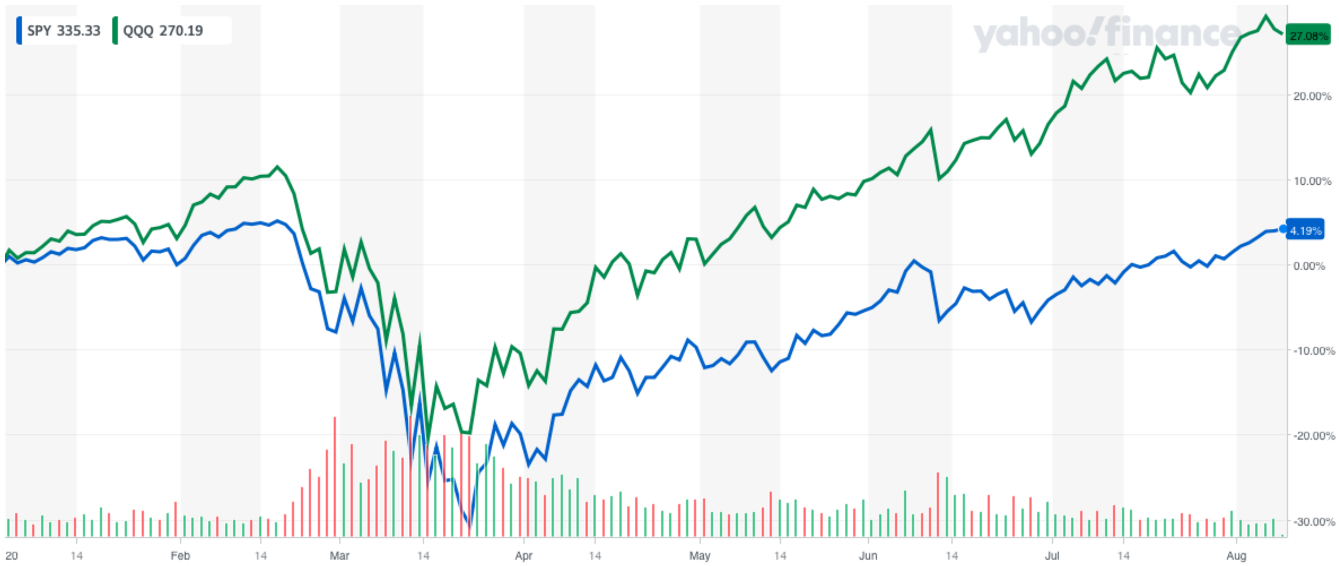
Pieces of the Puzzle

It’s been pretty widely agreed upon that 2020 has been one of the toughest for those on Wall Street paid to figure out the economy and what happens next for markets. To be clear as the day is long, trillions of dollars are in the hands of asset managers who strongly question the strength of the rebound in the markets since the lows of March. Add to that the stunning outperformance by a small number of mega cap technology and thematic leadership stocks, and what you have is a very humbling market.

What Covid Crisis?

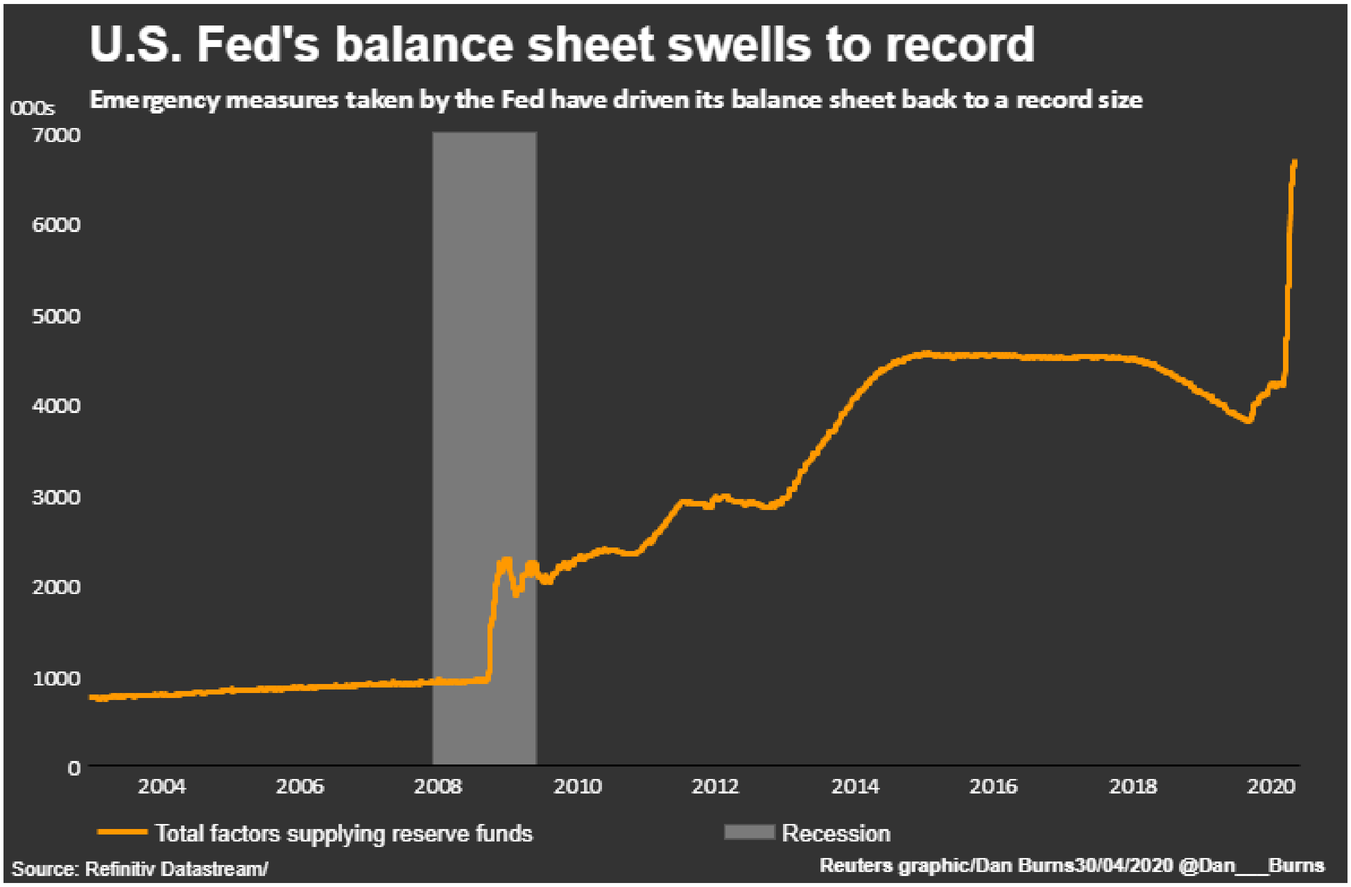


The quote of the year, so far, came from Paul Tudor Jones back in June, when he lamented that 'If there was a franchise for humble pie, oh my lord, they'd be a line a mile long to own that, because we all had huge gulps of it, me included." Fellow billionaire titan of the Golden Age of Hedge Funds, Stan Drukenmiller, got his serving as he made only 3% during a 40% rebound rally in the S&P 500. Keep in mind, that was two months ago, and the market has given none of that back, and continues to build on the positive momentum.

Humbled…But Still Billionaires

What's the point of looking back at opportunities made or missed? Because we are trying to understand what happens next. And to do so we need to figure out what the puzzle we are trying to figure out looks like. The markets and the economy came into the year in great shape, and were priced at the levels we are trading at now, yet in the six months since earnings have cratered, the bottom fell out of the economy, and even with a V shaped recovery, we are still looking at high long term unemployment. If the next move down in asset prices needs a policy normalization from the Federal Reserve, you can be as long and strong as you want for the foreseeable future, because it isn't going to happen anytime soon.

No Normalization in Sight

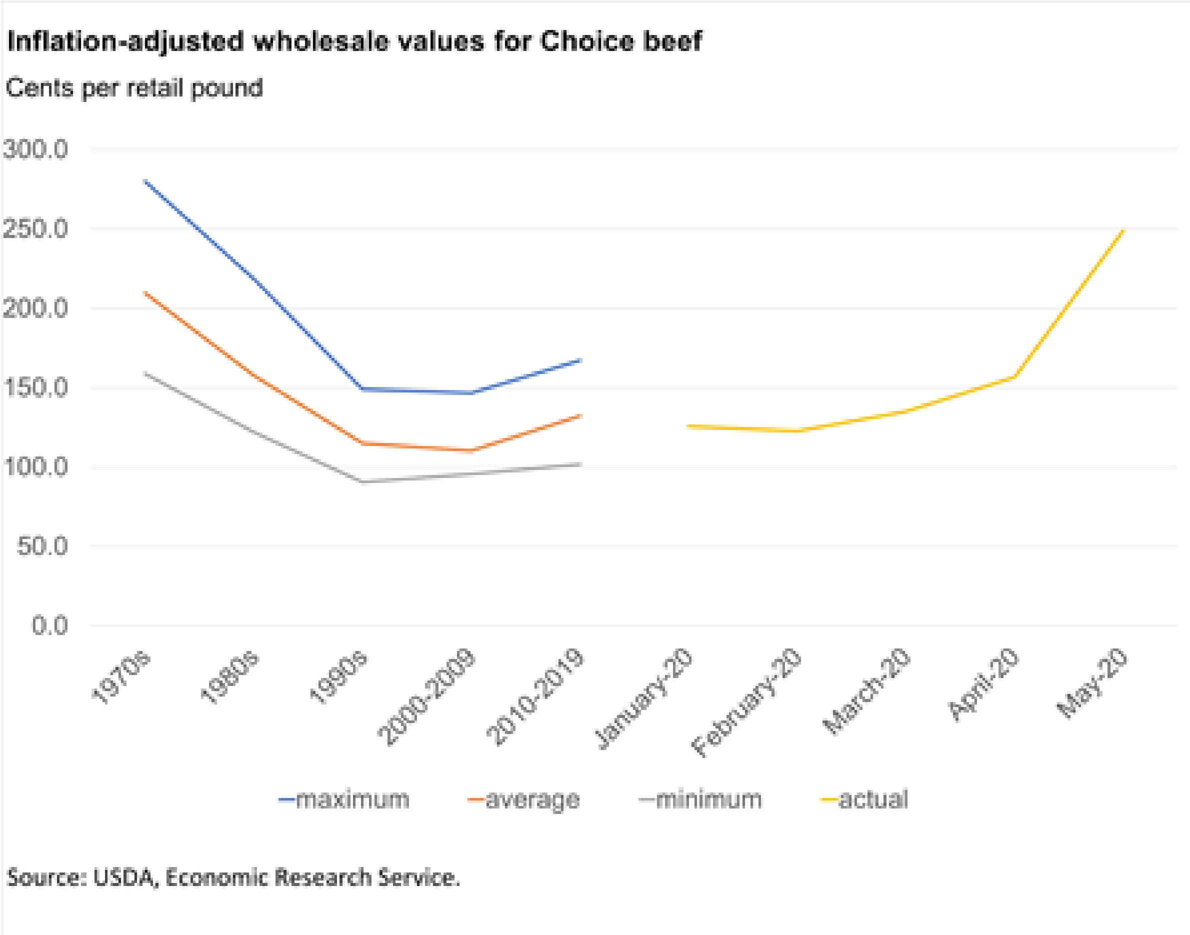


But a curious thing is happening behind the scenes that takes a back seat to new highs for expensive tech stocks, gold has been hitting new multi-decade highs and Wall Street is finally starting to absorb the narrative that this time around inflation might actually be a problem.

Shiny Object

We can see it from a couple of perspectives. First, there is no bout asset piece inflation, you see it every day in residential real estate and stock prices. The second, perhaps more important trend, is the near to medium term disruption of supply and manufacturing lines that has inventories for everything from car tires to cattle for meat production tight. This is the type of inflation that hits where it hurts most, the middle to lower class consumers, and it's referred to as "stagflation", a condition where you have a stagnant economy and higher prices paid where it hurts the most.

Bull Market for Beef



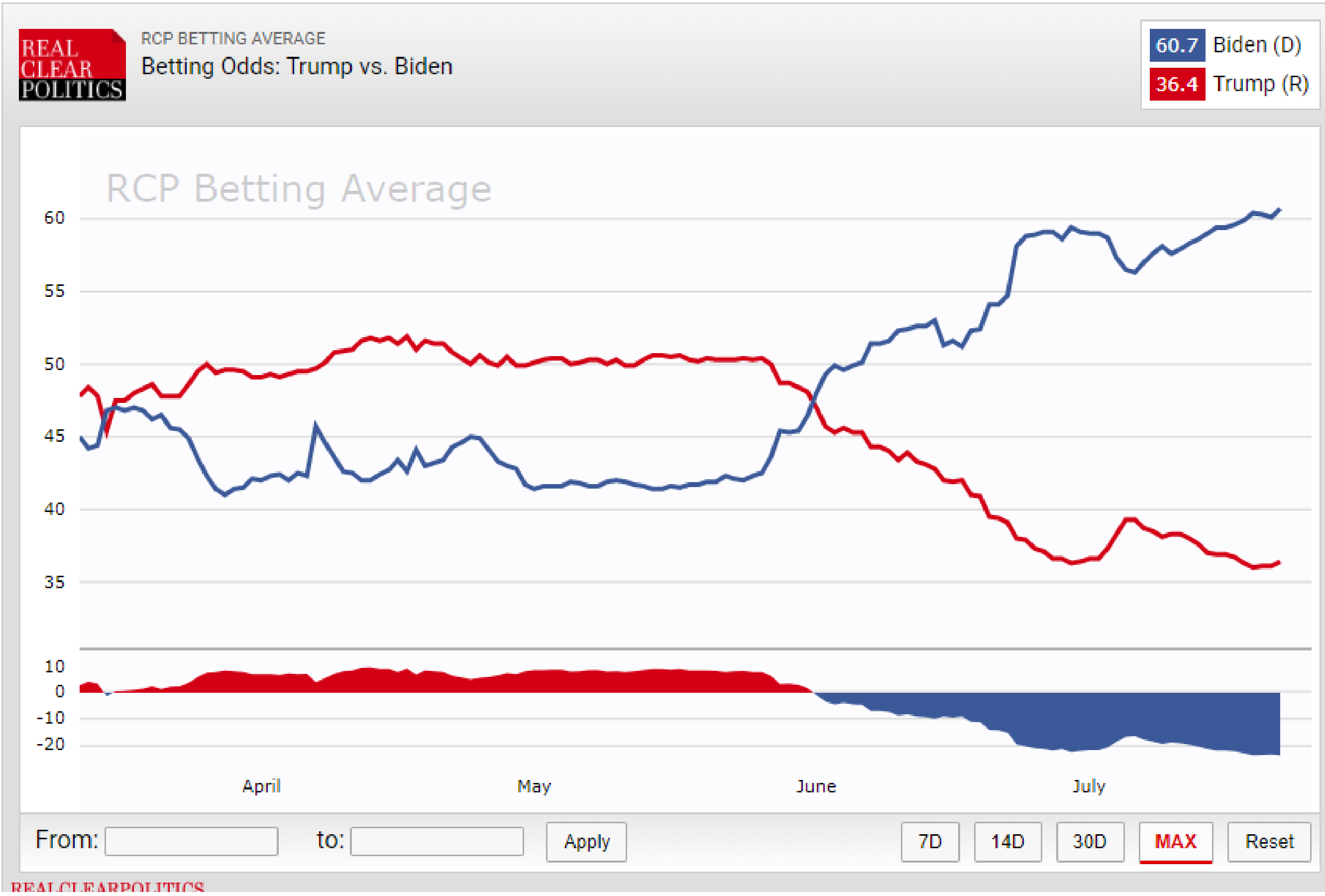
So, what does the puzzle look like from our skeptical bull perspective, and how are the pieces coming together? In our opinion, we are somewhere in the early to middle innings of an asset bubble that is going to rival or surpass those previously experienced, which is a tough position to be in when part of our job it to hedge out risk. We will be making good money on our longs, but upside capture isn't going to be one-to-one in this very reflexive environment. Good luck out there to everyone.

Bubbles, Bubbles, Everywhere

Elections & Markets

We are just over three months away from election day, and betting money is giving Joe Biden a 60% chance of becoming the next president of the United States. Keep in mind though, these are some of the same odds that had Hilary Clinton winning the 2016 election, and how did that work out?

Wide Spread



While we will be hearing a lot more about the impact a Biden administration, and a possible 'Blue Wave" event, history going back twenty years says not to expect much in the way of an impact on the markets over the next 90 days. While the returns have been more negative than positive, it's almost a push. These numbers are also skewed by the market crash associated with the Global Financial Crisis in the fall of 2008.

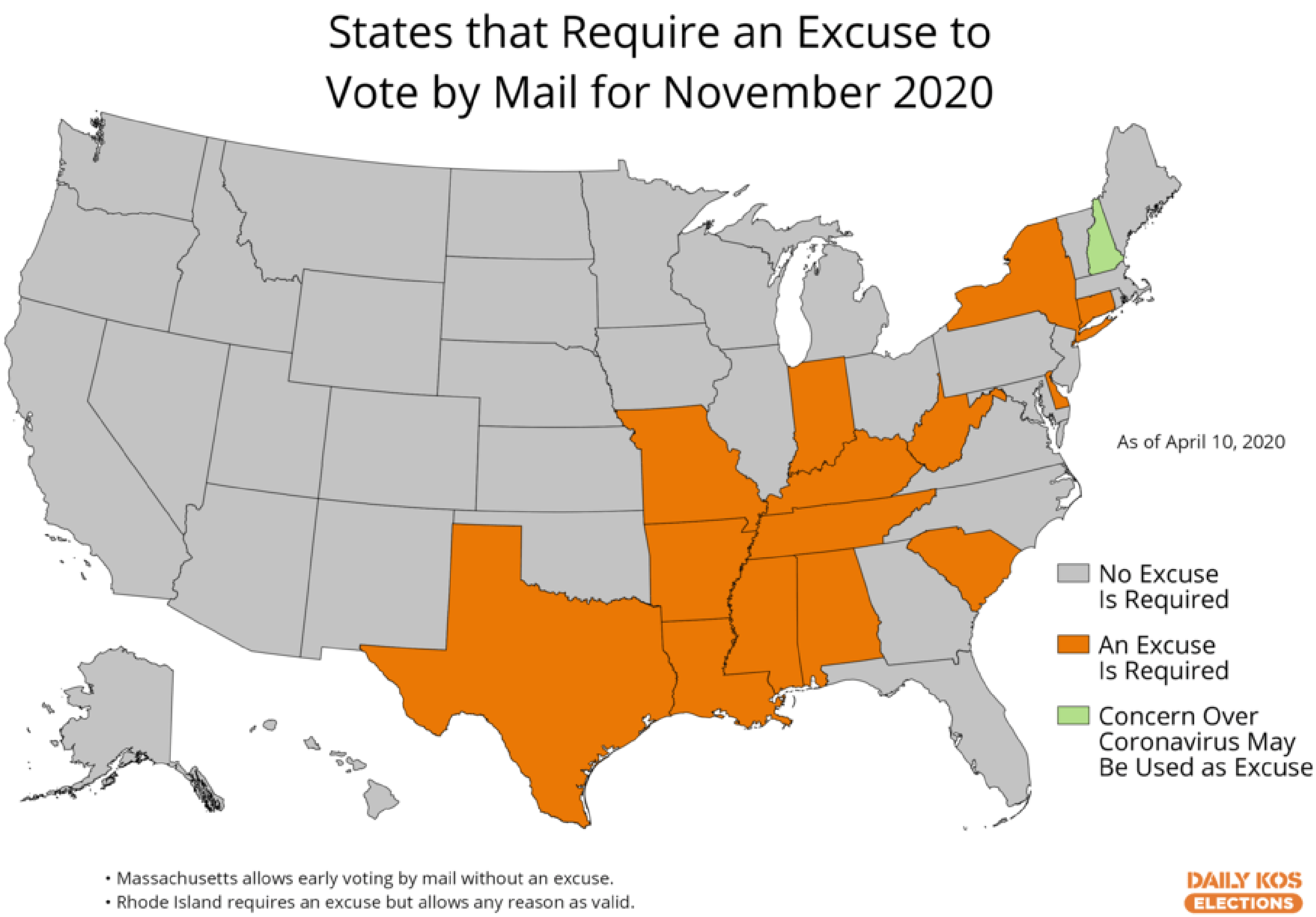
What to Expect

THE STOCK MARKET AND RECENT PRESIDENTIAL ELECTION CYCLES

YEAR	Dow	S&P
1992	-4.16%	-1.01%
1996	7.07%	7.80%
2000	1.71%	-2.12%
2004	-1.03%	2.62%
2008	-15.02%	-20.20%
2012	2.08%	3.86%
2016	-1.14%	-1.98%
AVERAGE RETURN	-1.50%	-2%
% POSITIVE	43%	43%

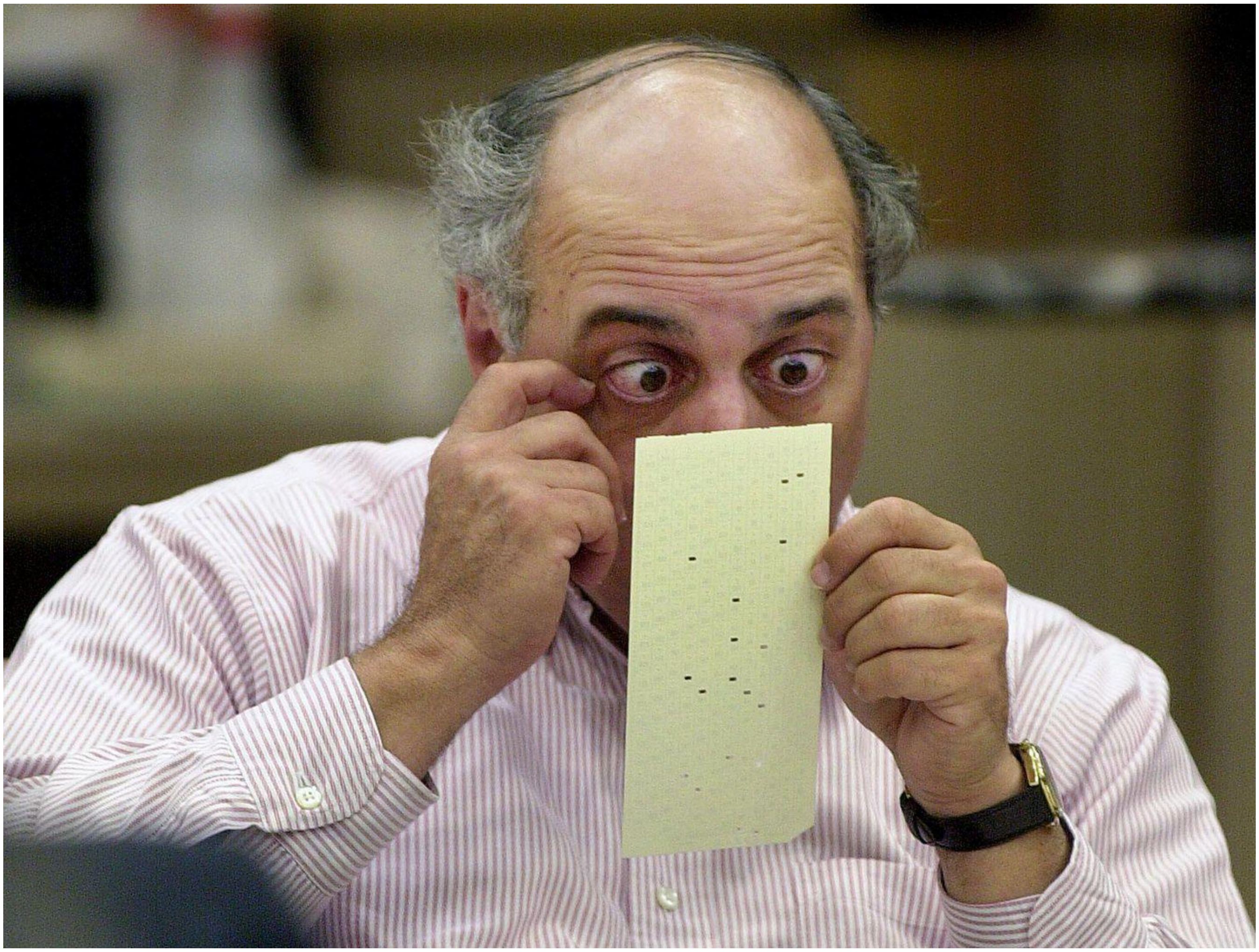
Another very large, and underpriced caveat in our opinion, is the pre-election ramp up in the rhetoric surrounding absentee vs. universal mail-in voting. The former has been in place for decades, and there is little concern about the validity of that process. Importantly, it requires the voter to ask for a mail-in ballot.

No Excuses



The former, is a newer process that sends ballots out to everyone universally on the voting rolls. As the Washington Post pointed out last week, the fact that absentee voting is the rule for the vast majority of states, including most of the ones where ballots really matter and can swing the election, the debate is largely diminished. That doesn't mean it's not grounds for headline grabbing rhetoric, investors simply need to be prepared for probable volatility if election results are seriously put into question.

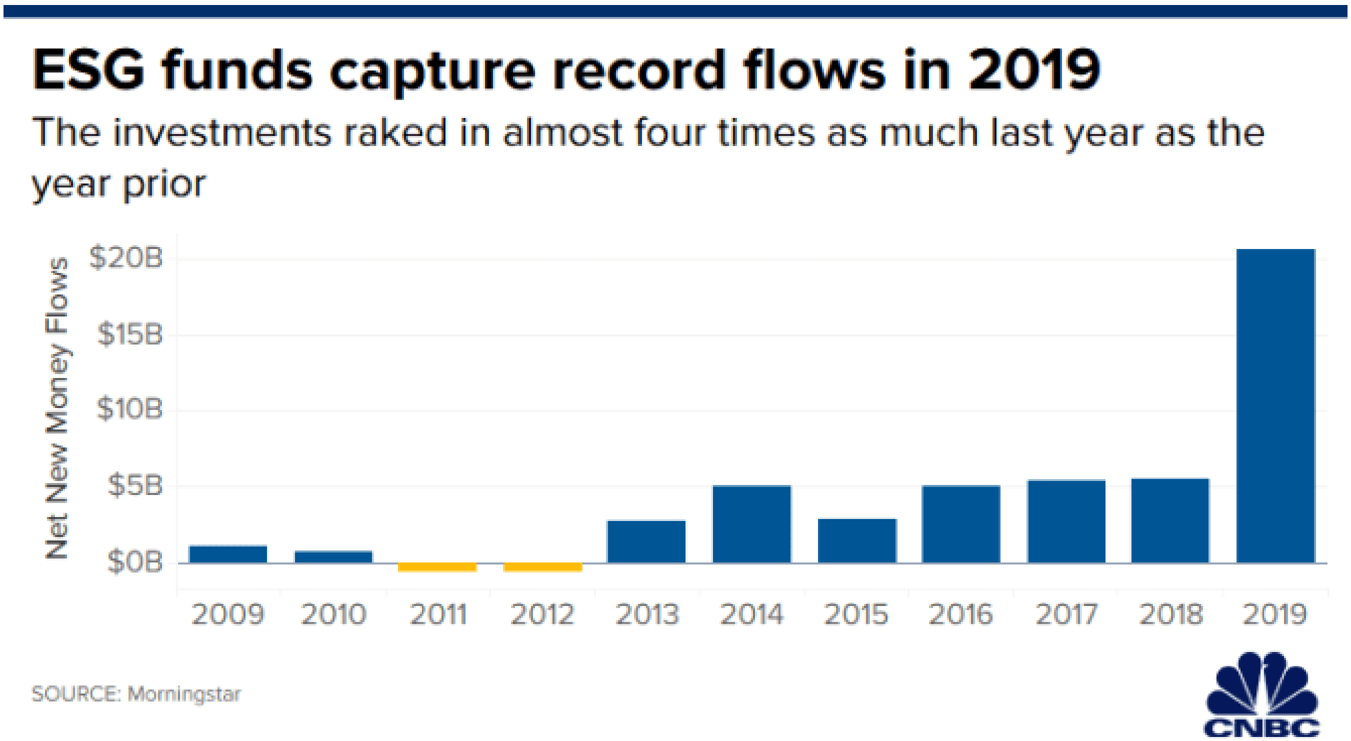
Remember This Guy?



Stillwater Hedged ESG

As part of our job to stay ahead of the curve, Stillwater will be rolling out an alternative ESG strategy in the coming months and we are taking indications of interest now. This follows in line with our previous efforts to take a solid trend that is in place on the long side, and enhance it with short positions and hedging for Alpha generation and downside protection. We did so with Hedged Equity Income, and are planning on doing the same in an area of the market with strong momentum.

Doing Good by Doing Right

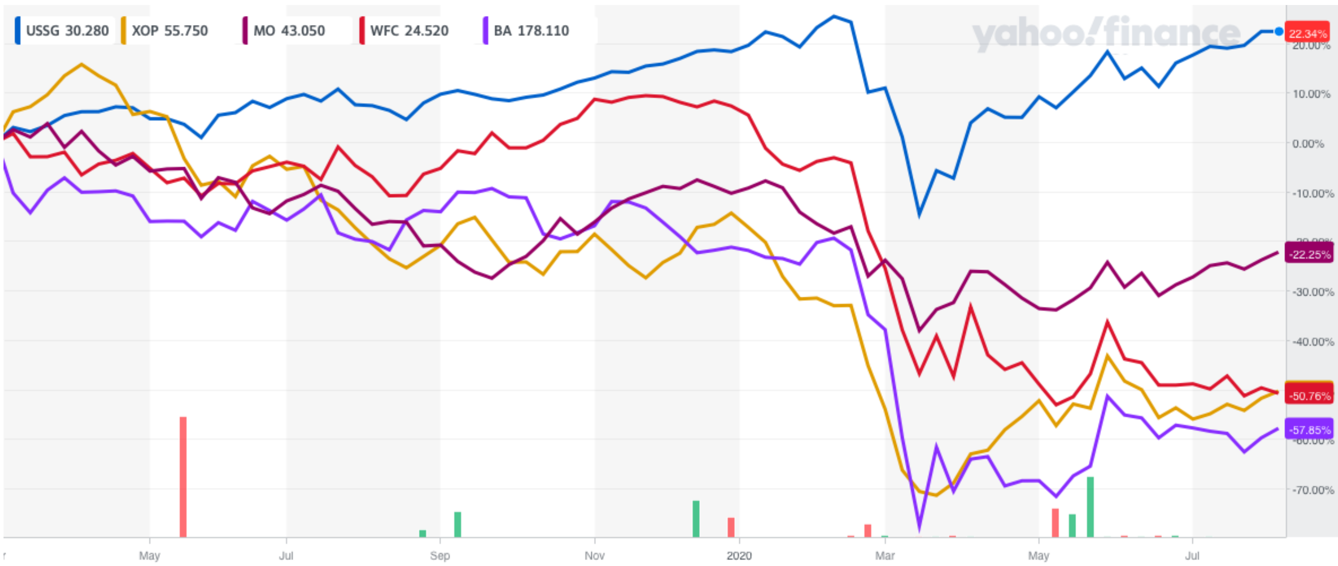


The long side is straight forward, and looks for companies that screen well from the traditional framework by which one would describe companies that practice policies to protect the environment, contribute positively to the social fabric domestically and abroad, and engage in corporate governance policies that support these and other progressive trends.

Making Green from Green

On the short side, we plan on flipping the script and will look for Alpha generating opportunities in companies that exhibit the opposite characteristics. This can be everything from fracking, tobacco and vaping, as well as coal and special situations like Boeing's mishandling of the 737 Max scandal, and Wells Fargo boiler room sales and fake account practices. This is what that trade would have looked like over the past two years with the USSG ETF representing the long ESG position.

Hedged ESG



Indications of interest from individual investors, institutions, and larger asset managers looking for a sub-advisory opportunity are welcome. We will have additional updates to our business, including SEC registration and enhanced distribution, in the coming weeks.

Hedge Funds

We told you how we felt about the market earlier, and could easily be accused of seeking confirmation bias at times. That said, billionaire investor Seth Klarman, let her rip in a way that we could really appreciate in his most recent letter to investors. In the sixteen-page letter he wrote….

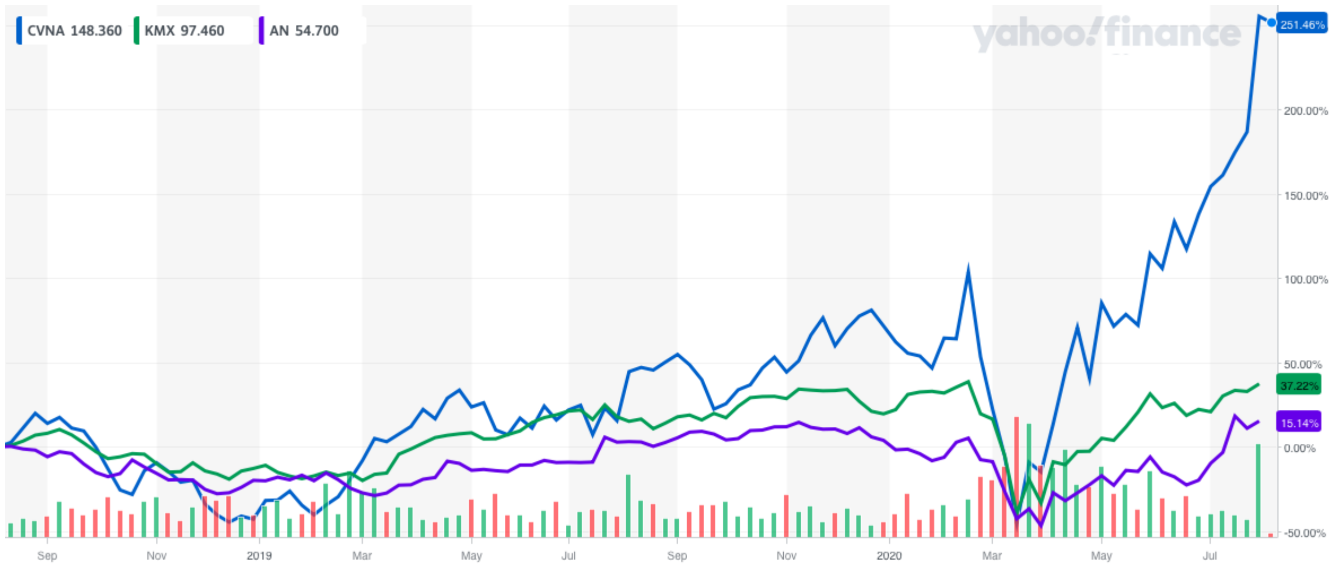
"Surreal doesn't even begin to describe this moment. Investor psychology is surprisingly ebullient even though business fundamentals are often dreadful, and are being infantilized by the relentless Federal Reserve activity. It's as if the Fed considers them foolish children, unable to rationally set the prices of securities so it must intervene. When the market has a tantrum, the benevolent Fed has a soothing yet enabling response."

We speak from experience that this is indeed the case, at least in our opinion. Twice in the last two years did we get it right on the fundamentals, only to have the Fed come in and swaddle the market's tenterhooks. Each time, the fast money and quants followed the rule and didn't fight it. And that's just the indexes we are talking about. In terms of individual stocks, the riskier the better. Case in point, online auto broker Carvana (Nasdaq: CVNA).

Cars in Vending Machine Form

This money losing, online car selling outfit, reported another loss last week on a revenue run rate of about $1 billion. Doesn't matter though, as the animal spirits are raging like never before and this looks like dot.com all over again. In a single day the 20% stock price rally added $10 billion in market capitalization to the company's value. At $35 billion, it is worth as much as its larger competitors CarMax and AutoNation…combined!

Cars.com?

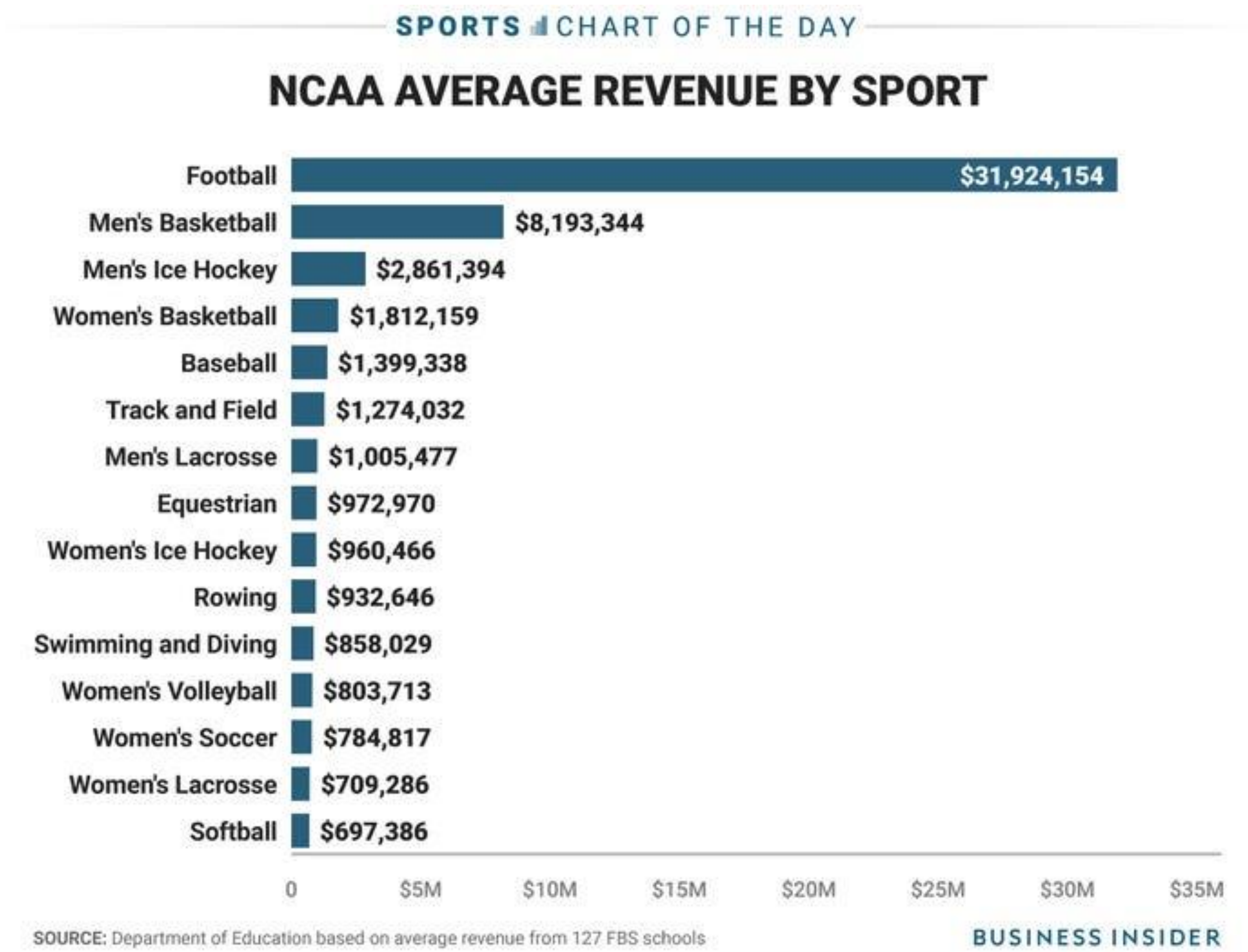


Full Disclosure: We have been on the wrong side of this trade for a while now, and last week's move left some tread marks are on our back side. While we think we will be right in the long term, the first few rounds have gone to CVNA and its venture backers, of which we wish we were in any round from A-Z. Flipping 'stay at home' stocks into the public markets seems like a great business right now.

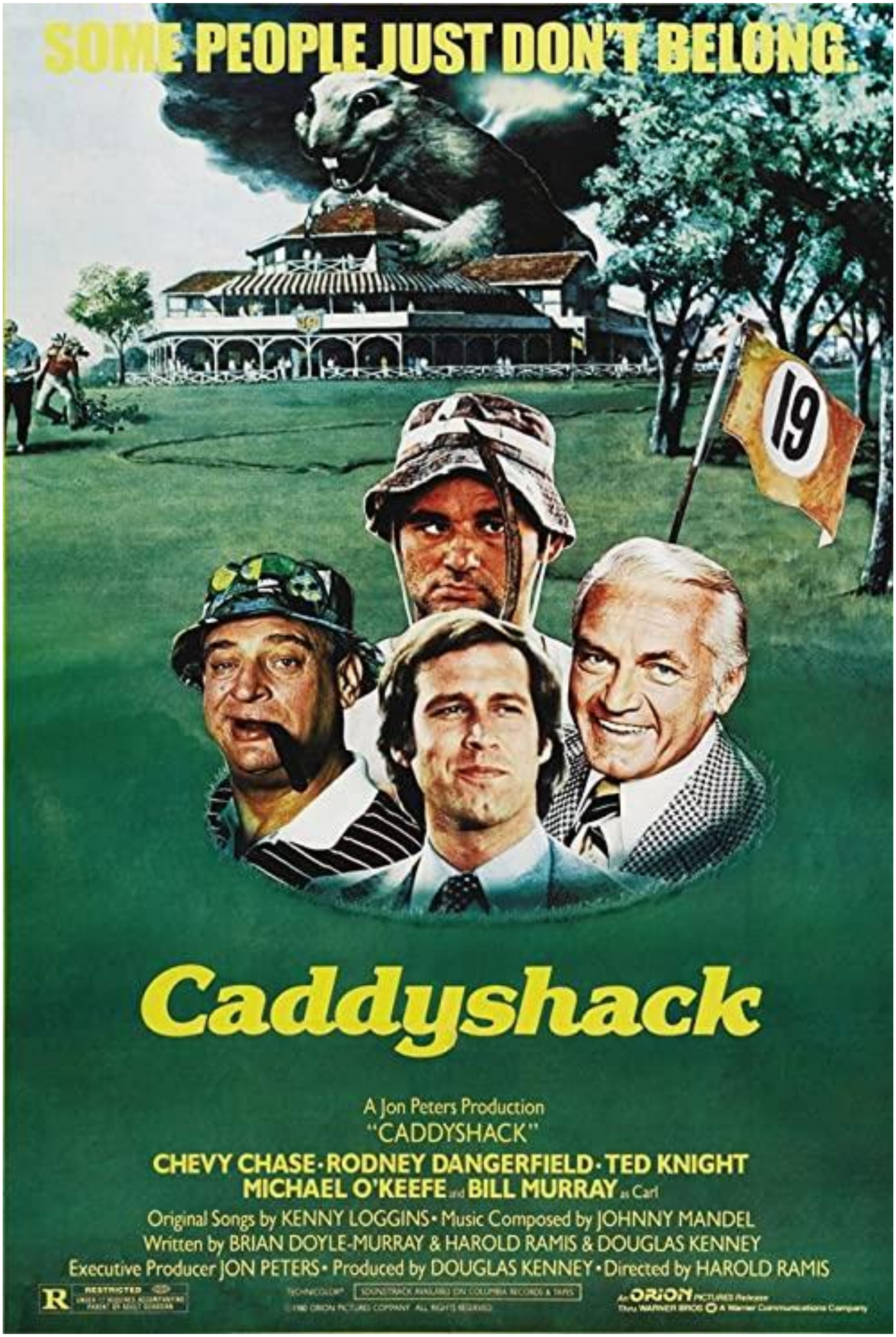
College Football

Sadly, we think the end is near for the fall 2020 college football season, as the secondary conferences continue to fold their cards and look to fight with a better hand in the spring. The athletic directors and presidents of the 'Power Five' conferences (Big-10, SEC, Big-12, ACC, Pac-12), have started making calls and we would be surprised to see the schedule hold up through the end of the week. And with the prospect of a postponed schedule, and lost revenue, this is going to put athletic departments back years.

Top Heavy



Caddyshack Turns 40


SOME PEOPLE JUST DON'T BELONG.
19
Caddyshack
A Jon Peters Production
"CADDYSHACK"
CHEVY CHASE · RODNEY DANGERFIELD · TED KNIGHT
MICHAEL O'KEEFE and BILL MURRAY as Carl
Original Songs by KENNY LOGGINS • Music Composed by JOHNNY MANDEL
Written by BRIAN DOYLE-MURRAY & HAROLD RAMIS & DOUGLAS KENNEY
Executive Producer JON PETERS • Produced by DOUGLAS KENNEY • Directed by HAROLD RAMIS
R RESTRICTED
An ORION PICTURES Release

Sticking with the sports(ish) theme, the greatest golf movie of all time, Caddyshack has turned 40 years old. To commemorate the occasion, Chicago Tribune writer Chris Borelli provided forty thoughts both well and little known about the movie. Our favorites…

8. ABC News once asked the Dalai Lama if, as Spackler recounts, his holiness offered caddies a promise of "total consciousness" upon death, in lieu of a tip. Answer: The Dalai Lama does not golf. Fox News also later asked the Dalai Lama about "Caddyshack." He had never heard of it.

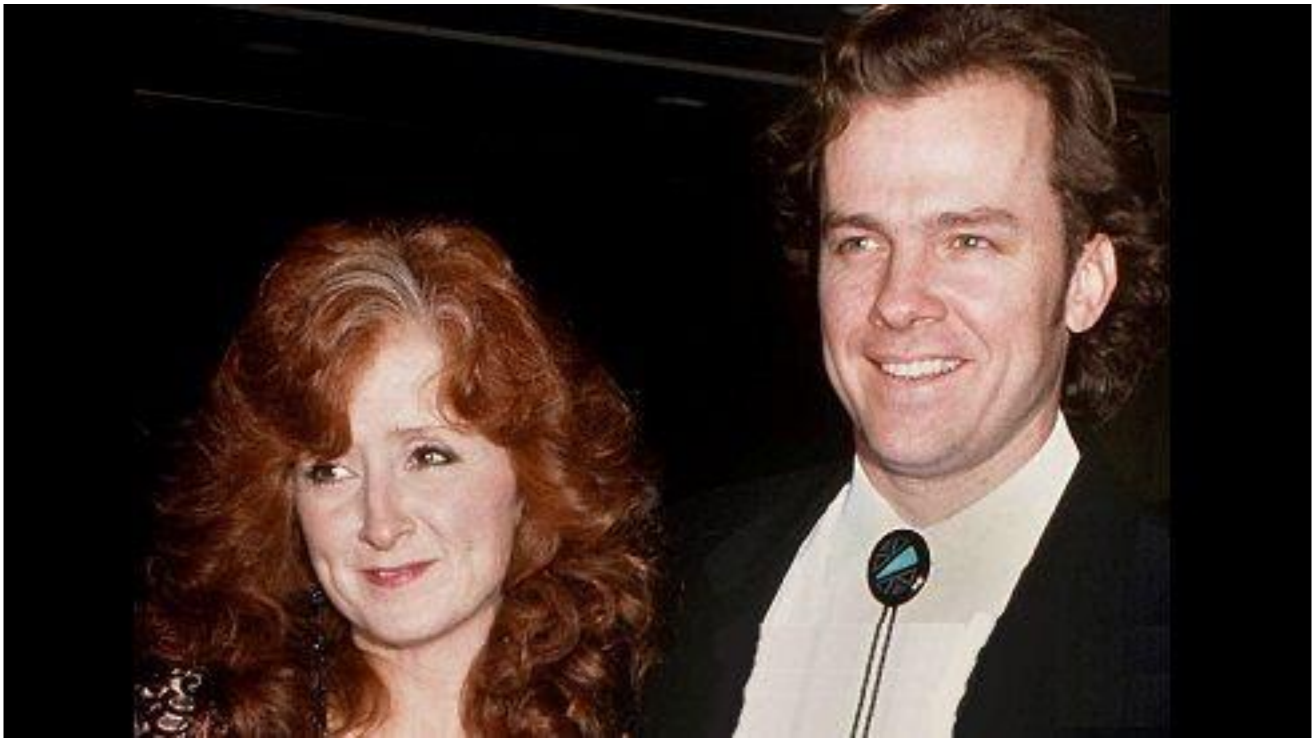
Big Hitter, the Lama

25. The only Black actor with a line was Jackie Davis, the actor who shines shoes at the club, and after overhearing Knight's character tell a racist joke, destroys the member's golf cleats. Davis wasn't really an actor. He was an accomplished jazz musician who helped popularize the Hammond organ, made several solo albums, and backed Louis Jordan and Ella Fitzgerald.

"I want these buffed..."

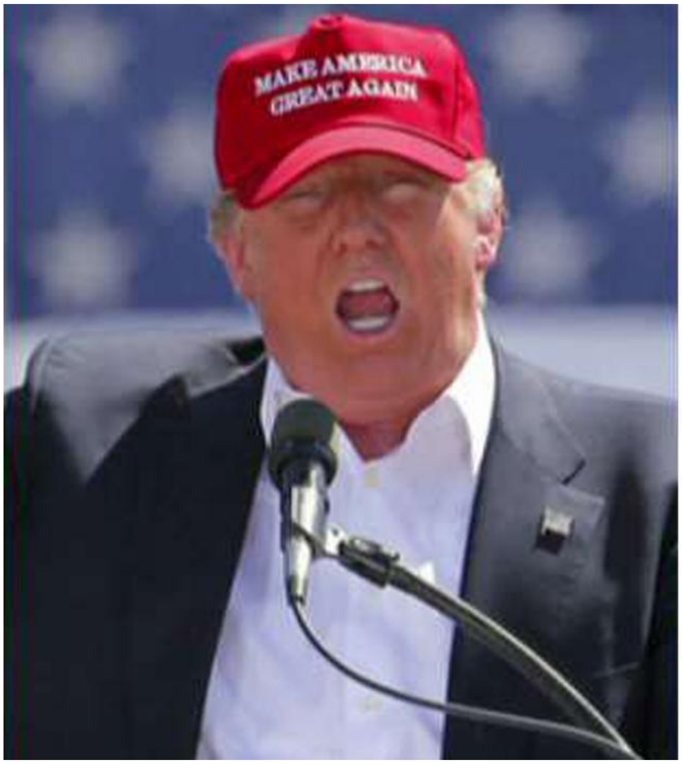
30. Actor Michael O'Keefe, who played Danny, that mildly rebellious scholarship candidate, was later an Oscar nominee for "The Great Santini" and married to Bonnie Raitt for eight years.

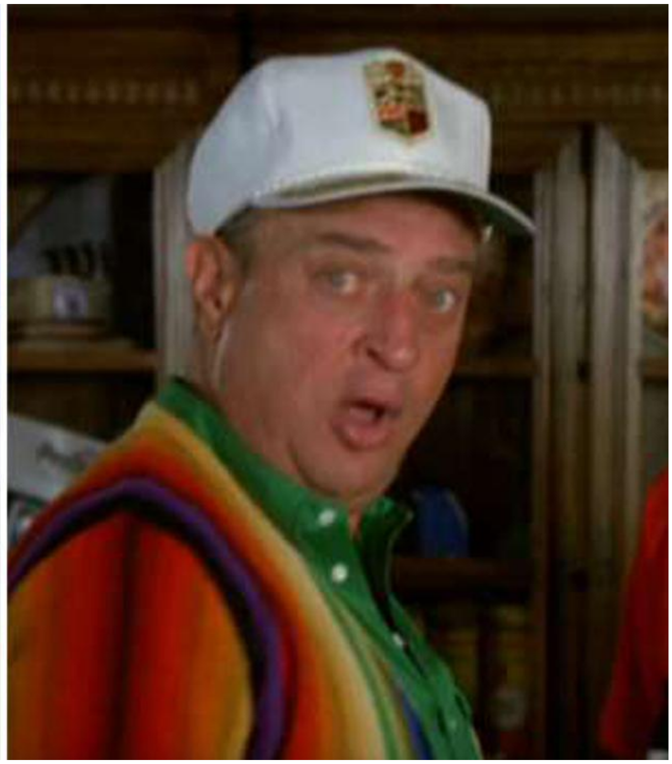
Strange Bedfellows



35. Last year, in his book, “Audience of One: Donald Trump, Television and the Fracturing of America,” James Poniewozik, TV critic for The New York Times, makes a compelling case that Trump essentially campaigned for president as a variation of Dangerfield’s character — a crass and insult-spewing real-estate mogul who upsets the establishment, whose “wealth doesn’t give him membership in high society, just the independence not to care to about its rules.

“I get no respect!”





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