

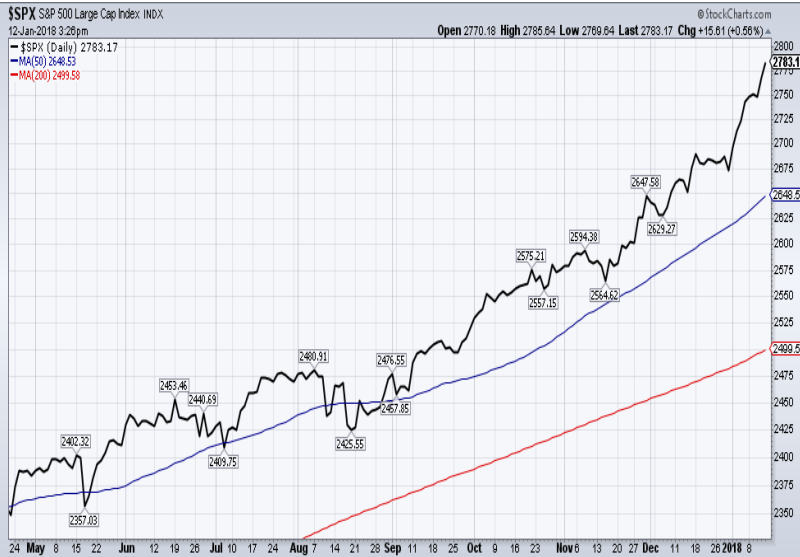
BILLS ASSET MANAGEMENT

BAM MARKET NOTE

JANUARY 12, 2018

SAM BILLS (865) 525-1329

BO BILLS (615) 371-5928



This has been quite a start to 2018. The strength last week continued this week as all of the major indices plodded upward and onward. Through 9 trading days, the S&P is up over 4% with only a small down day in the interim. It has been a steady climb (positive) instead of a one or two day surge. About the only negative one can come up with is that the market has gone up at a rapid pace and is getting a bit overextended. However, bull markets can stay overextended for longer periods than one expects. That said, it would not be surprising for the markets to take a breather next week.



We have written often about the importance of small caps in a bull market. The Russell 2000 is a barometer of the appetite for risk in the market and an indication of confidence in the US economy. Their performance was of some concern last week as they were lagging the broader market in the advance. That changed a bit this week as small caps surged yesterday. Strength from small-caps would only add more fuel to the existing rally and could set the stage for another leg up. It is certainly something we are watching.

Our Point

The drum beats on and it is hard to find anyone that has anything negative to say about the markets. The contrarian in us gets a little nervous when everyone starts singing the same song. Nevertheless, there isn't much to complain about in the current market environment. Earnings have started slowly rolling out with a few big banks reporting today. While current earnings will be important, most analysts will be looking at forward guidance (and more specifically rising profit projections) for an indication of what affect corporate tax reform will have on each company's bottom line. The expectation is that companies will provide a little rosier picture for quarters to come. Positive earnings and, more importantly, positive future guidance could provide the impetus for further advances in the market. It has been a spectacular start to 2018 but, we believe, not a time to become complacent. There will surely be bumps in the road. We are, however, enjoying the ride for as long as we can. We generated some available cash last week with the sale of our preferred holdings and, this week, we allocated a portion of that cash into the international space. Internationals have continued to shine and a falling dollar only serves to add a tailwind to their performance. We have a small amount of cash left and will look to put that money to work on any pullbacks. Have a good weekend.

The contents of the BAM Market Note should not be construed as advice to purchase or to retain any interest in any of the investments mentioned. Any references to returns are not indicative of future performance and are subject to adjustment or revision.