

# BILLS ASSET MANAGEMENT

## BAM MARKET NOTE

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Another week and another week of rising prices. The trend has slowed just a bit and volatility has picked up, but each day brings another new record. It's difficult to find any negatives. In fact, there aren't many. However, the one big negative is that the pace of this YTD advance is not sustainable for long. The annualized gain for the S&P since January 1 is 160%. Obviously, nobody believes that the market will continue this torrid pace but when it stops is anyone's guess. It is likely that a 3-5% correction is coming but the markets could go up another 1-5% before that comes. For now, hold what you have but be ready to become a little defensive.



While the major indices continue to churn higher, high yields have begun to weaken. The decline has been modest to this point but it does provide a warning that a short-term top may be near. It would come as no big surprise after the current run up in equities. We will continue to monitor high yields to help determine additional warning signs of an upcoming correction.

## Our Point

The equity markets continued their gains this week. As has been the case over the last year, there isn't much that rattles this market environment. With an impending government shutdown looming, the indices have issued a collective yawn and are currently trading flat today. Importantly, small caps are surging today and are up over 1%. The positive effects of tax reform continue to make headlines but the true test will come when companies release earnings and estimates for upcoming quarters. The indices have come a long way with barely a hiccup and are overdue (way overdue) for a correction of some import. That doesn't mean that it comes next week or the week after but it does indicate that a prudent investor not get caught up in the emotion of the market and throw caution to the wind. We have maintained our holdings and will not try to predict when the next correction comes. We will simply follow our trading discipline and sell positions that hit their sell stop and move out of underperforming holdings into better performing ones. There is no value in trying to predict when the next market correction will come (nobody knows) but there is tremendous value in responding to changing market conditions. Nothing much has changed since last week – a little more volatility and some early signs of high yield weakness – but as we have seen in our 25 years in the business things can change quickly. Stay warm and enjoy your weekend.

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