

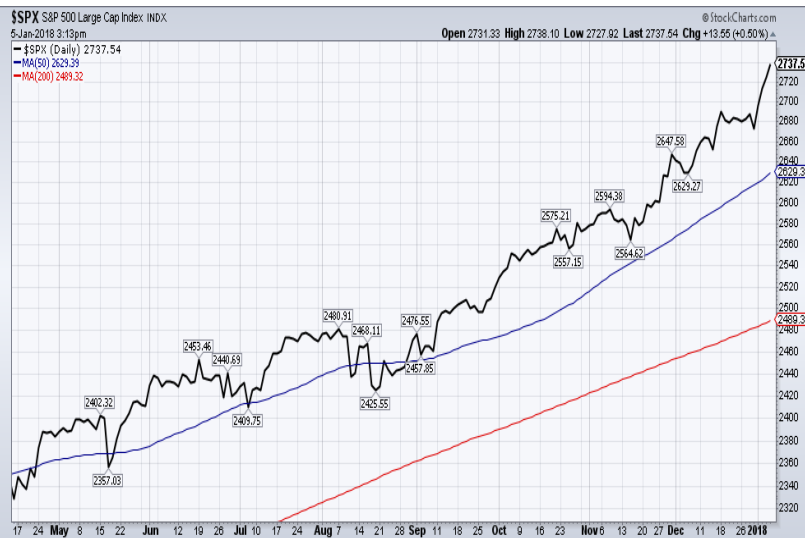
BILLS ASSET MANAGEMENT

BAM MARKET NOTE

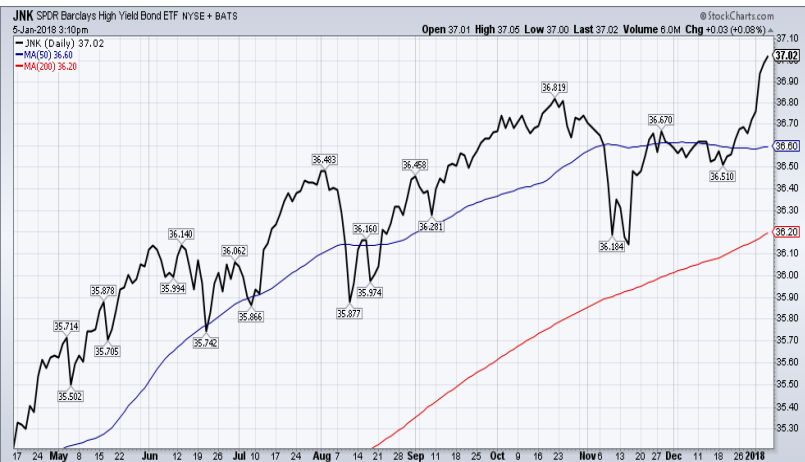
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Santa Claus came early, took a short break and then returned to ring in the New Year. Traditionally, the weeks before and after Christmas are strong weeks but this year they exhibited some weakness. However, the market has made up for it the first week of the New Year with all of the indices surging higher during the short trading week. The rally has been broad and strong with noticeable strength in technology and internationals. The S&P itself has broken through all levels of resistance and does not show any signs of weakening. It remains a very impressive market.



Even high yield bonds have joined in the rally. This is a particularly encouraging sign as this sector often foretells economic strength and weakness. After going nowhere over the last 3 months, high yields have turned up over the last 2 weeks and indicate that bond traders see economic strength ahead. We will have to see how the new tax law works its way through the economy but early indications point to a significant jolt to the economy.

Our Point

With the low volatility advance last year and the strong start to 2018, it would be easy and quite natural for an investor to become complacent. However, you should remain vigilant and even a bit cautious. While things do look quite good in the markets currently and optimism reigns supreme, the fact remains that this market has come a long way in a short period of time with little to no volatility. We don't know when that will change but we do know with great certainty that it will. All things come to an end and those that believe that this time is any different from past bull markets are nothing less than foolish. With that caveat and warning in place, there is nothing currently that gives us any reason to believe that the recent strength won't continue. The economy is strong and getting stronger, there is expansion globally, tax reform should take hold in the coming months, repatriation of corporate earnings should provide further strength, etc... There are many reasons to be optimistic. Of course there are always areas of some concern (geopolitical risks are the most prevalent) but the odds are currently in favor of future gains. We have sold our last remaining preferred holding. It wasn't going down but was moving sideways and there are simply better opportunities. We will redeploy those proceeds next week. We hope your 2018 is off to as good a start as the markets and wish you a very Happy New Year.

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