BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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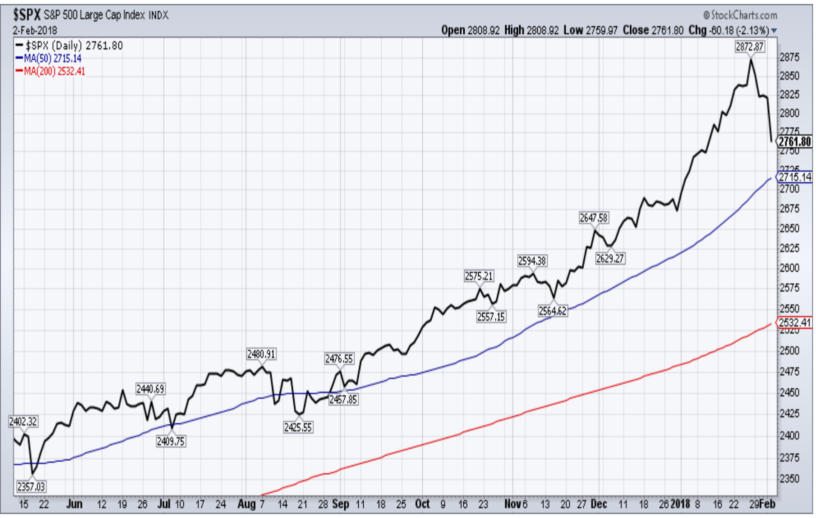

As we mentioned last week, a correction/pause was needed and expected. Well… we got it and then some. The problem with a sharp rise in the market is that a sharp decline grows more and more likely the more stretched the markets become. Also, with such a sharp and steep rise there are very few levels of support for the market to find a floor. The 50 day moving average (another 1.7% to the downside) is one area of support that may provide a floor for the current decline.

10 year bond yields have soared and are now approaching levels not seen since 2014. The quick rise in yields (up 3% today) reminds investors that the Fed is no longer providing quantitative easing and is, instead, embarking on a tightening cycle. If rates continue up, how the Fed responds in the coming months will likely determine where this market heads next.

Our Point

Today's decline hurts and raises the specter of further losses. However, investors remain under the illusion that every sharp drop will be met with renewed strength. That has certainly been the case over the last several years but at some point the markets will head down and keep going. Risk has increased significantly but we don't believe that the current decline is the start of anything more than a normal correction. Of course, time will tell and we choose to respond rather than predict. Today's jobs report was excellent indicating a continuing strengthening of the economy. Wage growth accelerated. All looks good, but the good report further reminded investors that the easy money provided by the Fed over the last 10 years is likely a thing of the past. Apple's earnings report didn't help matters as its stock was pummeled after reporting mixed earnings – hitting some numbers and missing others. It was down over 4% today. The decline in this bellwether stock gave investors a reason to sell and take some of their profits. While today's losses were substantial, the markets remain healthily up for the year and the longer term trend remains firmly intact. However, investors would be wise to remain cautious. Monday will likely see a bit of a bounce but what happens the rest of next week will be more instructive as to whether or not the worst is behind us. We made no changes to our portfolio this week but will spend the weekend (with a break for the Super Bowl) and early next week determining if changes are necessary. Have a good weekend.