

BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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This morning's open continued the weakness we had seen since Tuesday. At its worse, the Dow was down another 400 points today. However, by the time the closing bell sounded the Dow had pared its losses to 70 points while the other major indices finished in the black. Interestingly (and encouraging), the Russell 2000 surged today finishing up 1.71%. It was still an ugly week but the late Friday buying gives hope heading into next week. The S&P again failed to hold above the 50 day moving average and there is little support between current levels and the 200 day moving average. The odds of retesting those lows went up significantly this week.



As long time readers know, we believe that the high yield bond market provides a wealth of information about the current state of the market and where things might be headed. HYG is one of several ETFs that track the high yield market. While it is more volatile than most high yield bond funds, it can provide clues to the strength of the economy and early warning signs of trouble. The ETF has declined with the market but has found support at the 85.25 – 85.40 level. Holding these levels will be something worth watching next week to see if more weakness is to come.

Our Point

We mentioned last week that we weren't out of the woods yet and this week certainly highlighted that point. Weakness began on Tuesday and accelerated with fears of a trade war after the administration's talk on steel and aluminum tariffs. All the while, the Fed continues to dry up liquidity by selling many of the bonds and mortgage backed securities they purchased during quantitative easing over the last 9 years. Just like the Fed began this bull market some 9 years ago, it will likely be the downfall of it too. But I am getting ahead of myself. Today's late afternoon strength provided a little hope heading into next week. However, the markets failure to hold above the 50 day moving average greatly increases the chances that the lows of early February will be revisited in the coming days or weeks. Regardless, market movement is likely to be choppy for several weeks with many false signals (both buys and sells). We had considered reducing our holdings with this morning's weakness but we reversed course with the afternoon rally. We have decided to hold what we have and wait for next week to gain a little more clarity. This is not an easy market environment and caution should be exercised. March madness has begun a little early.

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.