**BILLS ASSET MANAGEMENT**

# BAM MARKET NOTE

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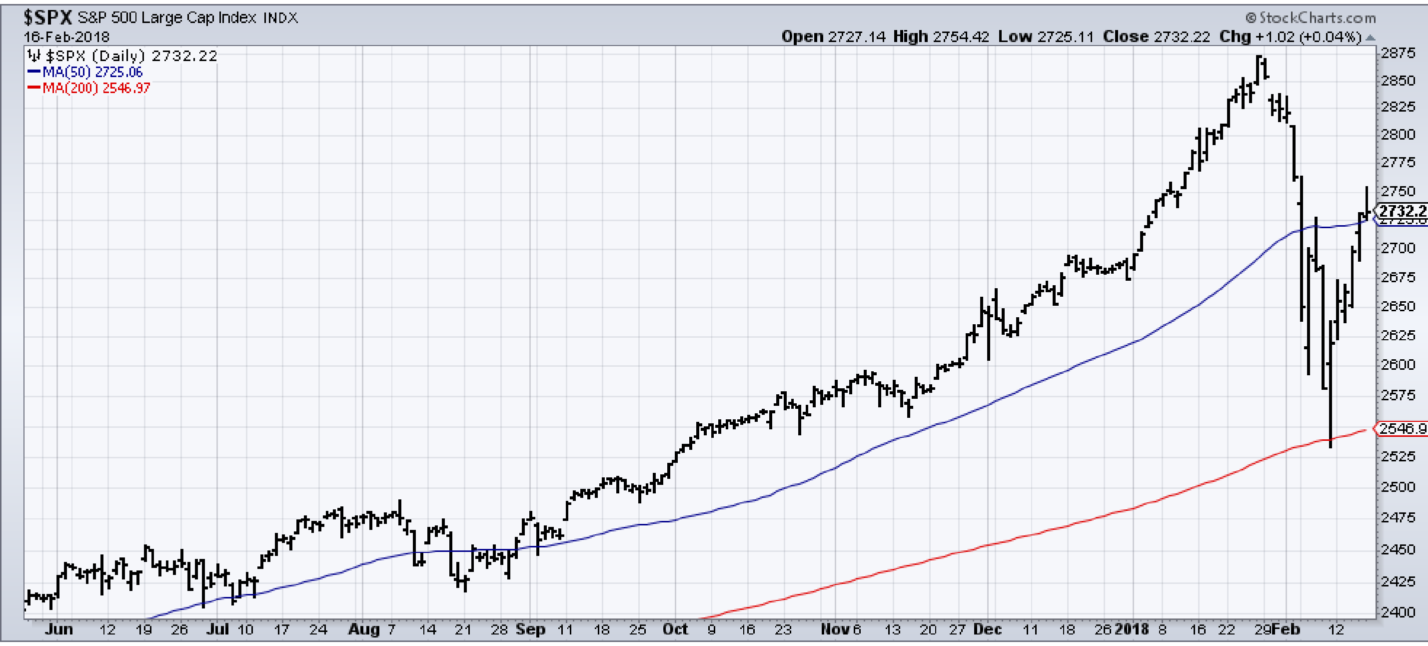


## Our Point

Even the casual observer can see that something changed in this market during the last week of January. Volatility (as measured by the length of the bars in the chart) was virtually non-existent from September of last year until late January of this year. The much awaited correction arrived with much fanfare and violently shaved 10% and 3 months worth of gains in 9 short trading days. The market spiked down last Thursday and briefly pierced the all-important 200 day moving average before rallying back at the end of that day. Since last Thursday the market has rallied an impressive 6% and the obvious question becomes – Is it over? In investing there is rarely an easy answer! The bulls will argue that the 50 day moving average resistance was re-taken and the short-term downtrend (series of lower lows and lower highs) has been invalidated with the markets making a higher high with some follow-through the latter part of this week. The bears will argue that the market is just in a counter trend rally, the markets are getting overbought, and it would be rare not to at least retest the 200 day moving average. There are compelling cases to be made by each side. Rather than try and predict where the market goes from here, it is more important to respond to what it actually does. We now have a rather large (11%) range from top to bottom with boundaries set at the highs of January 26th to the upside and the 200 day moving average to the downside. It is likely that the markets will be bound in this area for at least a few weeks. It would certainly not be unusual for the markets to retest the 200 day moving average (6% down from current levels). After the big run-up this week, some weakness next week would not be unexpected. If the 200 day moving average holds after a successful re-test, it would bode well for a resumption of the longer-term bull market. It should be noted that the recent weakness has done little to the longer-term trend and, at this point, is nothing more than a normal correction (albeit a scary one with the fall coming in a few short days). Economic conditions remain favorable and earnings have been very positive. Don't count out further gains this year just yet. We made no changes this week but do have a little bit of cash that we could put back in the market if a new uptrend develops or upon a successful re-test of the 200 day moving average. Enjoy your weekend wherever you find yourself.