BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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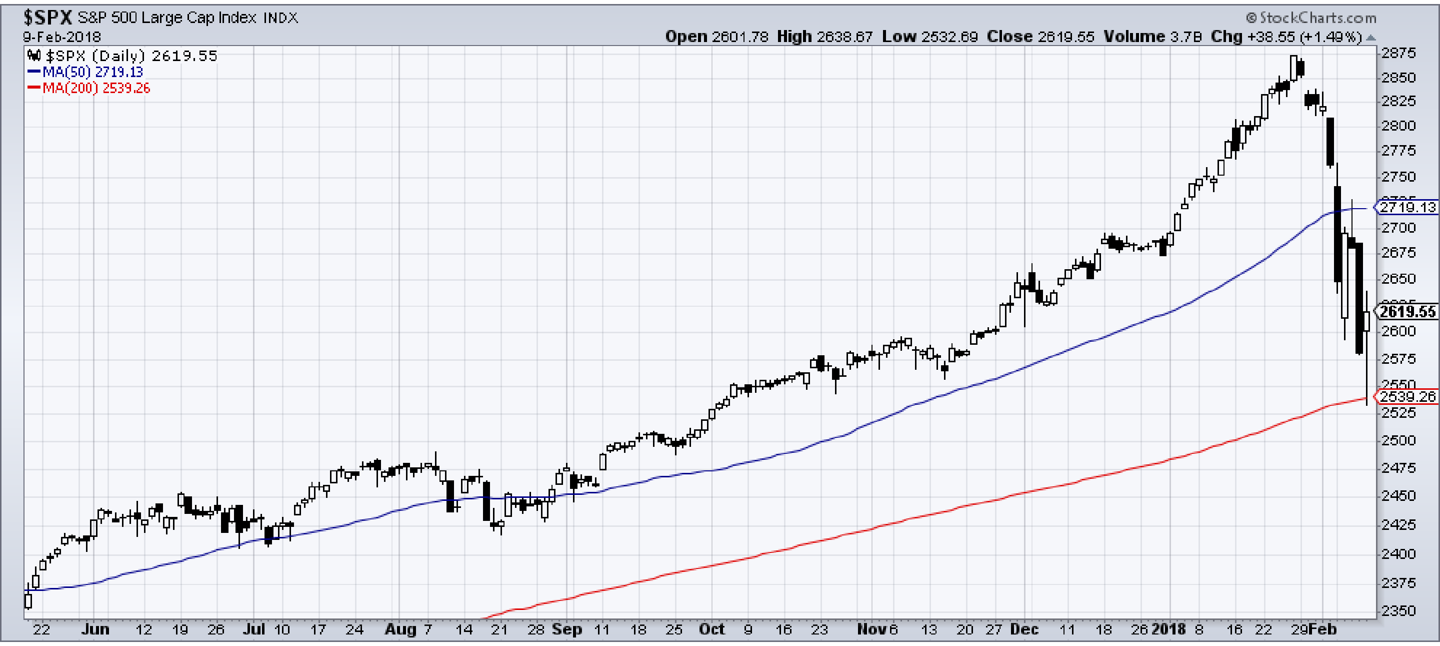
SAM BILLS (865) 525-1329

BO BILLS (615) 371-5928



Our Point

As unnerving as this week has been, it should be put into perspective. The market is correcting and that is not a bad thing. As we have discussed for some time, the market has been extended and due for some sort of correction. While nobody expected the sudden increase in volatility, the fact that the market is selling off should come as no big surprise. To this point, the S&P has fallen 8.5% over the last 2 weeks. While this week was ugly (down 5%), we only have to look back to the start of 2016 to find a worst week. Investors have become accustomed to low volatility and very few down days. While that has been the norm over the last couple of years, it is not the norm of normally functioning markets. Unfortunately, it looks like the volatility we experienced over the last several days may take awhile to settle down while the markets try to find a bottom. Today, volatility was all over the place with the Dow up this morning over 300 points before turning negative 500 points at lunch time and then finishing the day up 330 points – an 800 point swing from top to bottom. Importantly, the S&P touched and successfully tested its 200 day moving average. Fortunately, the line in the sand held but it is possible (if not likely) that this line will be tested again in the coming days. It will be very important that the markets are able to close above this important support level. Much of the volatility can be traced back to the increase in passive traders that are easily spooked, the increased popularity of leveraged ETFs that have become prevalent in the low-volatility environment of the last few years, and the continued increases of computerized trading that have automatic triggers when markets reach certain levels. Everything points to a strengthening economy with good earnings reports and rosy forecasts. This leads us to believe that this is a normal correction, that, while painful, should subside over the coming weeks. Risk management, however, mandates that we do take some corrective measures and we have reduced our portfolio exposure accordingly. One of these days, the market will go down and continue down. We don't believe we are there yet but are prepared to reduce risk further should the selling take on renewed life next week. Have a good weekend and enjoy some of the Olympics.