BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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After a swoon the latter part of June, the S&P has accelerated to the upside. Since June 27, the widely followed index is up nearly 4% and has added close to 1.5% of that this week. The resistance line in the 2790-2800 area was broken earlier this week before giving way to selling. However, yesterday's strong advance took the index back up above this important resistance and it is holding there today. As you can see, there is little in the way of resistance between the levels of today and the highs of January. Should the market hold firm here, another leg-up is likely.

REIT shares often lag the market in the early stages of a rising interest rate environment. However, it is important to note that a rising rate environment often means a strengthening economy which should lift many sectors. REITs are no exception and it appears that the prospects of continued economic strength is outweighing the impact of higher rates to the sector. REITs have developed a nice up-trend over the last several months and is an area that we continue to watch.

Our Point

The markets have largely recovered the losses they suffered at the end of the second quarter. The S&P and NASDAQ have both recovered all the losses while the Russell 2000 and Dow are heading that way. After months of outperformance, small caps have lagged over the last month. While not yet alarming, it is something to watch. We expected that the large caps would play catch up and this is likely all that is happening. The premise is buttressed by the fact that the NASDAQ (another barometer of the market's appetite for risk) continues its leadership role. Speaking of the NASDAQ, the FAANG stocks remain the unquestioned leaders of the current market. In fact, if you add Microsoft to the FAANG (Facebook, Amazon, Apple, Netflix, and Google) stocks, one can see the outsized effects these 6 stocks have on the major indices. From December 1, 2017 to July 1, 2017, these 6 stocks accounted for a gain in the S&P 500 of 2.66%. In contrast, the other 494 stocks accounted for a loss of .4%. Clearly, as goes these 6 stocks so goes the market. The lack of market breadth is concerning and the astute investor should remain a bit cautious even as the indices look to hit new highs. We sold out of our high yield bond positions as we look for better opportunities. We have a small amount of cash available and will look to reallocate these funds as market conditions warrant. We have had a good start to the 3rd quarter and remain optimistic but guarded.