Bills Asset Management

BAM MARKET NOTE

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Sam Bills (865) 525-1329
Bo Bills (615) 371-5928

The S&P was on its way to a very good week but Facebook (see below) ruined the party. The S&P managed to hold onto its support in the 1800 area and had marched up to within striking distance of its January highs. Support is still holding but is under some pressure today. This level will be key as we enter the dog days of August. Low trading volumes during the summer months can lead to some exaggerated moves. From a technical standpoint, all will be good if the major support around the 1790-1800 area holds. If it breaks, we could spend the rest of the summer embroiled in the trading range we have endured for much of this year.

To say that Facebook disappointed Wall Street would be a gross understatement. The stock was punished on Thursday as it lost 19% of its value. It was the largest capitalization loss in stock market history. Revenues, earnings and users all missed expectations and the reverberations were felt throughout the market. Surprisingly, Facebook is adding to its losses today. On the positive side and with all things considered, the market held up very well.

Our Point

Facebook's major earnings misstep shook the market but considering its capitalization and its contribution to the major indices, the losses were measured. The apparent concession by the European Union on its trade tariffs also served to lessen Facebook's impact on the markets. With the big exception of Facebook, earnings have been very good and had served to rally the markets. Amazon's positive earnings report and the Commerce Department's release of the second quarter GDP this morning helped buoy the market early but selling has returned this afternoon. As reported, second quarter GDP hit 4.1% and further illustrates the strengthening economy. We suspect the market will digest the disappointing Facebook news and will continue its rally over the coming weeks. However, as always, we do not invest on what we suspect might happen but rather what is actually happening. Despite the hiccup by Facebook, the markets continue to look healthy. As we mentioned last week, we were waiting on the S&P to break out of the months long trading range before committing new capital to the market. We got that earlier this week and responded by investing the small remaining capital we had left in our client portfolios. Energy and health were the beneficiaries of our investments and we are fully invested in our moderate and aggressive portfolios while maintaining a small cash position in our conservative accounts. Enjoy this last weekend of July.