

# BILLS ASSET MANAGEMENT

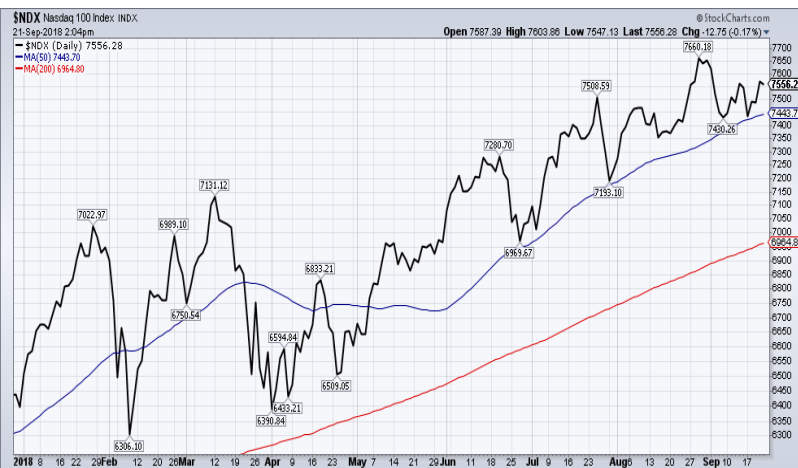
## BAM MARKET NOTE

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The S&P and other non-tech large caps have enjoyed a good week. The Dow has been especially strong – up 3% for the month. While the Dow makes for a great headline, it is mostly a meaningless index as it only represents 30 ultra large cap stocks and therefore subject to the whims and movements of only a few companies. The S&P is up 1% for the month and, thus far, has survived what many expected could be a difficult month. We'll see how the month finishes, but the momentum is currently up.



One of the things that continues to give us pause is relative weakness in both the Nasdaq and the small-cap Russell 2000. Both of these important indices are down a little more than 1% for the month. The market will not continue moving higher without the participation of at least one and preferably both of these indices. Something has to give and we are likely to see a resolution in the next week or two. Either these indices strengthen and play catch-up or they will drag down the large cap indices.

## Our Point

It is a bifurcated market with strength in the large cap indices and weakness in the small-cap and technology sector. As we have mentioned here often, it is difficult (at best) for markets to sustain upward momentum without participation from technology and small caps. The Russell 2000 and Nasdaq are indices which are both good indicators of the market's appetite for risk and both are now indicating investors are nervous about the current move by the non-tech large caps. We will have to see how it plays out in the coming weeks but there is no denying the strength in the S&P. Positive trade talk have buoyed the Dow and S&P and even international markets have started to see some much needed life. Emerging markets (EEM), which we highlighted last week, has bounced this week with a 5 day gain approaching 3%. Investors would be well advised to not be mesmerized by the surge of the Dow and instead watch the Russell, Nasdaq and international markets for clues on the sustainability of the recent advance. Despite our reservations about the recent advance, we made some small changes in our client portfolios this week adding to an existing low volatility holding and adding a position in consumer discretionary. We have retained some cash and will deploy when we get confirmation from the more aggressive indices. Have a great weekend – despite the heat, leaves are beginning to fall so it will be a weekend of some yard work here.

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