

# BILLS ASSET MANAGEMENT

## BAM MARKET NOTE

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As we mentioned last week, it was likely that the S&P would pause and retest the levels of past resistance (new support). It did that this week and closed today right at the January highs. Volume (red circle) picked up a bit this week and will get back to normal next week as traders return from Labor Day and end of summer vacations. The increased volume will determine how much conviction this market has in the short-term. On the chart, you can also see that the gap (red arrow) the accompanied the initial break-out has been filled. We should see next week if support holds or if we are in for some September weakness.



Technology shares have led this market higher for much of the year. However, weakness pervaded the NASDAQ this week as it finished off 3%. As you can see from the chart, this level of decline is not all that unusual for this volatile index but it does raise questions as this decline comes on the heels of an overbought market and as we enter what is traditionally a very weak month. A significant increase in volume also accompanied the decline which gives it some validity. With the S&P at a key level, we will be watching the NASDAQ next week for additional weakness.

## Our Point

After a stellar August, the market indices were due for a pause and a pull-back. It comes as no big surprise and, as we noted last week, what we expected after the S&P surged through the highs for the year. What happens next week will likely determine the near term direction of the market. A failure by the S&P to hold above support would lead to increased selling pressure and a more significant correction. Technology holds the key and continued weakness in the NASDAQ will pull the S&P down through support setting up a deeper decline. We are not calling for or expecting an end to this bull market and, in fact, remain optimistic that the market will finish the year on a strong note. However, it would not be surprising if the markets fell a little more providing a better entry point for the cash we are holding. If we are wrong and the S&P holds support we are likely to increase our holdings. If we are right, then we will wait for the dust to settle before committing new money to the markets. We made no changes to our portfolios this week but continued weakness will lead to changes next week. We remain comfortable with our current holdings and are glad we had a little cash to buffer the declines of the past week. The 2018 debut of the Vols was less than stellar but I am an eternal optimist and orange blood doesn't run. We are looking forward to a weekend of Vols and Titans football. We hope you have lots to look forward to this weekend. Enjoy!

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