

# BILLS ASSET MANAGEMENT

## BAM MARKET NOTE

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Volatility continued this week as the S&P struggles to find a bottom. While the S&P surged over 2% on Tuesday, weakness returned Wednesday and Thursday and the much watched index looks to finish flat for the week. Flat is not all bad but after such a violent and quick decline, it would have been much more reassuring to see the market stage a little more impressive rally this week. The 200 day moving average (red line) is providing some support currently but a return to the lows of October 11<sup>th</sup> is more likely than not. Holding those lows will be tantamount as a failure would likely lead to another bout of selling.



There are a number of reasons to believe that the weakness is not over but one that stands out (and one we have been harping about for some time) is the relative weakness in the small cap space of the markets. While the S&P fell 7% in the recent decline, the Russell fell over 11% and is already retesting its October 11 lows. The underperformance of small caps does not bode well and continues to flash a caution sign to the rest of the market.

## Our Point

As we mentioned last week, the recent decline did an inordinate amount of technical damage to the market and it is likely to take several weeks to repair. While the decline looks similar to the one that hit in February, there are a number of differences that makes this one feel a little different. Among the differences; Small caps and technology shares continue to lag. Additionally, international markets have been weak for months now. While the US was the beneficiary of the weak international markets over the summer as foreign money looked for a home, that may be changing as world-wide investors become more and more uneasy. With the lingering weakness, the upcoming mid-term elections, a Fed bent on raising rates, etc., we have continued to pare risk from our client portfolios and sold another two positions this week. We are not expecting the start of a new bear market but prudent investment management requires moving to a more defensive posture. When investors start thinking about selling, as they certainly have over the last couple of weeks, it does not take much in the way of news to start another wave of selling. It remains a tenuous market environment and extreme caution is warranted. However, should the market bounce and strengthen, we will quickly re-enter the markets. Despite the current weakness, we believe a good buying opportunity will come out of the weakness and we will patiently wait for that time. Fall is in the air this weekend so make a fire and play in the leaves. Have a great one and please contact us with any questions or concerns.

The contents of the BAM Market Note should not be construed as advice to purchase or to retain any interest in any of the investments mentioned. Any references to returns are not indicative of future performance and are subject to adjustment or revision.