BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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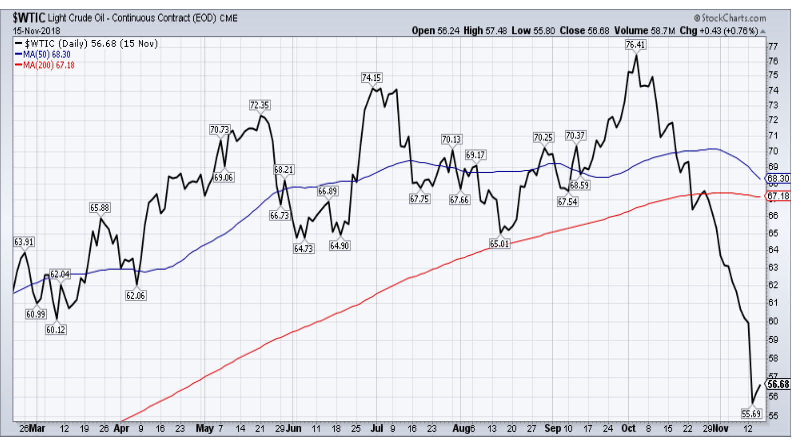
As we expected and highlighted over the last two weeks, price gaps around the 2770 and 2700 areas of the market were likely to be revisited. Over the last several days, both were filled resulting in losses in the S&P. With these two gaps now filled, will the market make another stab at moving higher? There are compelling arguments to be made on both sides. 2700 looks to be relatively solid support while 2800-2820 appears to be significant resistance. We may well bounce around this range for the rest of the year. Volatility has continued with large swings intraday. A break below support or above resistance, would likely lead to another outsized move either down or up, respectively. Until then, we are embroiled in a volatile range.



Oil has suffered a steep sell-off over the last month – down over 20% since early October. While the steep drop will be good for consumers (lower gas prices, lower inflation, lower heating costs), it raises the question of whether or not this is a supply or a demand issue. If a supply issue, then the effect to the markets will be muted as the over-supply is consumed. However, if a demand issue, then it would raise the specter and add more fuel to the fire (pun intended) to a broader risk of a global slowdown. One of many things to watch.

Our Point

As we delve deeper into the 4th quarter, the traditional tailwinds get stronger and stronger. This is especially true with small-caps, as their historical out-performance is significant. With that said, there is nothing in the charts that suggest we are getting ready to take off. In fact, there is significant reason to believe that the market won't head back up until the late October lows are revisited. As we indicated here several weeks ago, the technical damage to the market correction was/is significant and will take some time to repair. That is not to say that the market can't rally from current levels but the odds are that we still need a few weeks of repair before any sustained rally. Significant rallies during the repair phase is to be expected. It is easy to get excited when the market explodes to the upside like it did earlier this month. However, the current environment is fraught with risk and most investors would be better suited to taking significant risk out of their portfolios (selling the rallies) on market strength. Our portfolios remain mostly in cash (80% or more) and we are happy to sit out the day to day volatility. With that said, we continue to look for pockets of low volatility strength to make a little money where we can. Additionally, the markets can turn on a dime so we have been compiling a list of market areas that would be compelling on increased stability and strength in the market. Patience has and will continue to be rewarded. Last weekend was a good one as both Tennessee teams (Vols and Titans) both looked impressive. It has been sometime since I could write that so I am taking that opportunity now! Let's hope for another great weekend – enjoy.