

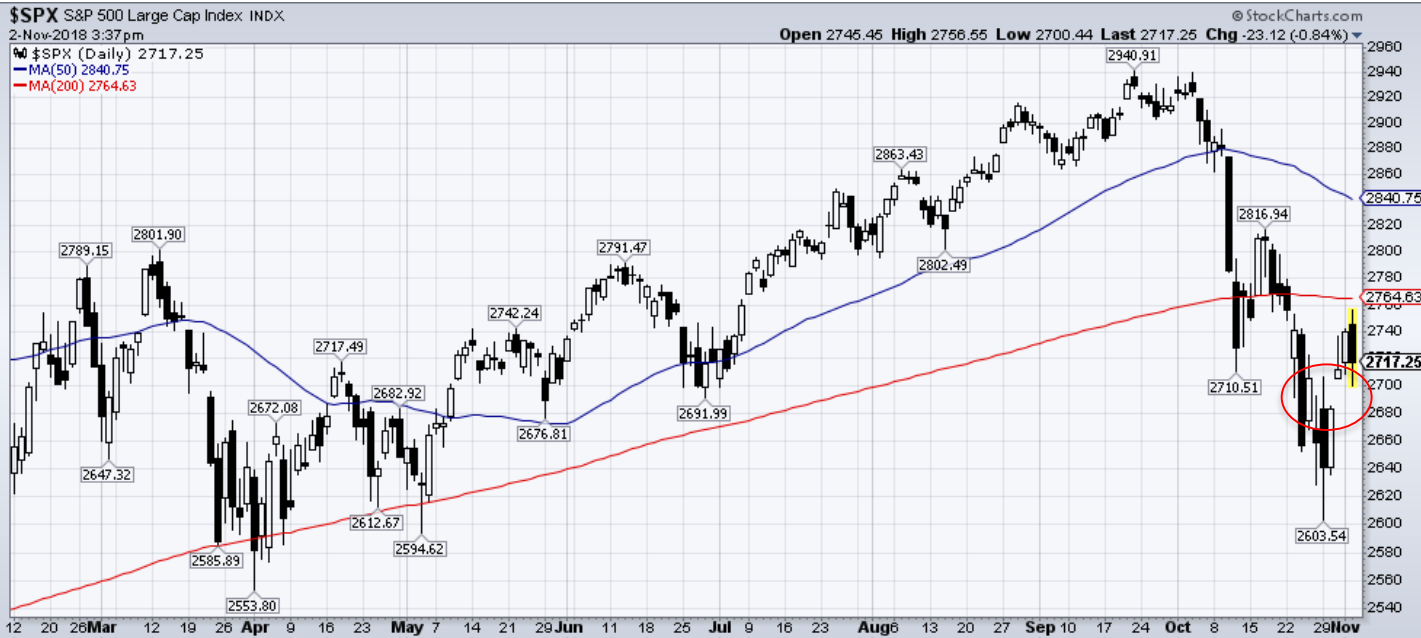
BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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Our Point

The start of November has been a much needed reprieve. All of the major market indices enjoyed higher prices and the S&P looks to finish the week up around 2.5%. The gain pales when compared to the losses endured over the last month but currently any gain is a good one. Strong rallies in the midst of a correction are not uncommon and are to be expected. The question now becomes will investors choose to buy the rally thinking that we are out of the woods or whether they will sell the rallies taking the opportunity of higher prices to get out. Of course nobody knows which way the market will turn from here. However, it would be "normal" for the market to revisit the lows of the market set last week. Assuming those lows hold, it would set up an end of the year rally that could see very nice returns later this month and into December. Another reason to believe that the lows will be revisited is the gap-up that happened earlier this week. Price gaps are always filled so a decline to fill this gap is likely. The recent lows (2620-2640) will provide some support but the area around 2550 (as mentioned last week) is much more solid support. So, is the worst over? The lows may very well be in but we are likely to revisit them in the next week or two. Should those levels fail, we would be in for another bout of selling. On the positive side, we are entering a very seasonally strong period. Additionally, the mid-term elections will be resolved (thankfully) on Tuesday which would take one more uncertainty off of the table. The mid-terms will likely be a non-event if things play out like the polls suggest (Democrats take the House and the Republicans hold the Senate). However, should the market be surprised Tuesday evening, we would likely see an increase in volatility next week. In any event, some volatility should be expected over the next few weeks as the bulls try to repair the technical damage done to the markets. We took the opportunity of higher prices to further reduce our market exposure. Our portfolios are mostly market neutral now and we will wait to see what the next down leg looks like and how the market responds to the mid-terms. We remain cautious but have some hope for a tradeable rally to end the year. We will wait patiently but will be ready to move back in the market once conditions improve. Enjoy your weekend and that extra one hour of sleep Saturday night.

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