BILLS ASSET MANAGEMENT

BAM MARKET NOTE

SAM BILLS (865) 525-1329

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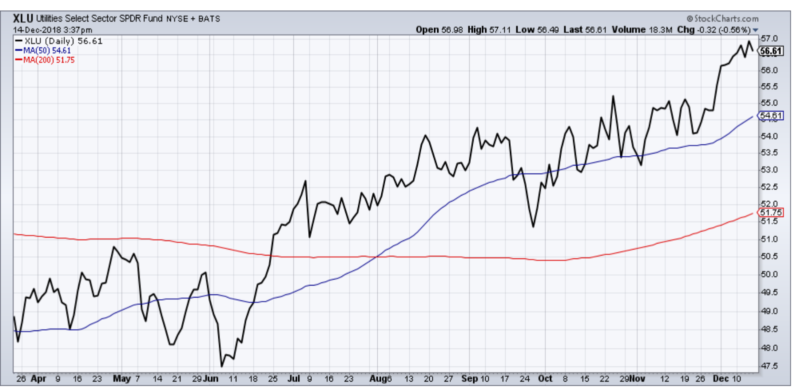
BO BILLS (615) 371-5928

The S&P has now decisively broken the recent support on a closing basis (not good) and is now heading down to the lows set earlier this year. With less than 1% between where we are now and those lows, we are going to hit that support in the coming days. The question then becomes – will those lows hold? It is a line in the sand for the bulls and, perhaps, the difference between a correction and the start of a new bear market. If the lows do not hold, then we have likely entered into a bear market with much more pain to come as the clock turns on another year. 2019 could be very interesting and painful for those investors without a risk management plan in place.



There aren't many areas of the market that look attractive in the current environment. However, utilities have been a bright spot and continue to perform well both on a relative and absolute basis to the major indices. Other defensive sectors (healthcare, real estate, staples, etc) are holding their own but utilities are standing out in the crowd. A market that is being led by utilities and other defensive areas is not a healthy vibrant market.

Our Point

After a dismal few days last week, it would not have been surprising to see a relief rally this week. However, the rally that materialized was very weak and deteriorated altogether today as the major market indices all tumbled 2% to finish the week in the red. More significantly, major support levels were breached and sets up another important test just below current levels. As mentioned in prior missives, small caps have already breached those levels and it looks like the rest of the market is now following. The market will need a positive catalyst of some type to reverse the bah humbug mood currently on Wall Street. The Fed meets next Tuesday and Wednesday with a ¼ point rate increase expected. The Fed is in a tricky position. How does the Fed raise rates while delivering a dovish statement? The next major market move may well hinge on how well and coherently the Fed explains its policy. Too dovish and the market may scramble thinking the Fed sees a weaker economy than everyone else. Too hawkish and the market may worry that corporate profits will be stifled by increased rates. Like I said – a delicate balance. We'll see on Wednesday how well the Fed dances. In the meantime, investors should continue to exercise extreme caution and risk management. A fantastic buying opportunity will come out of the current weakness. The key is keeping your capital intact during the weakness. Patience will be rewarded. We made one portfolio change in our moderate and aggressive portfolios, adding a small position in utilities. If things get really ugly, utilities will likely fall with the market; but in the current environment, utilities are a leader. We will be watching this position closely and have set a stop to limit losses should the purchase turn against us. We are having our first Christmas this weekend as Kelly's family descends upon our house and will be heading to Knoxville on Christmas day for our second Christmas. We hope you are enjoying this holiday season and that the joy of the season doesn't escape you.