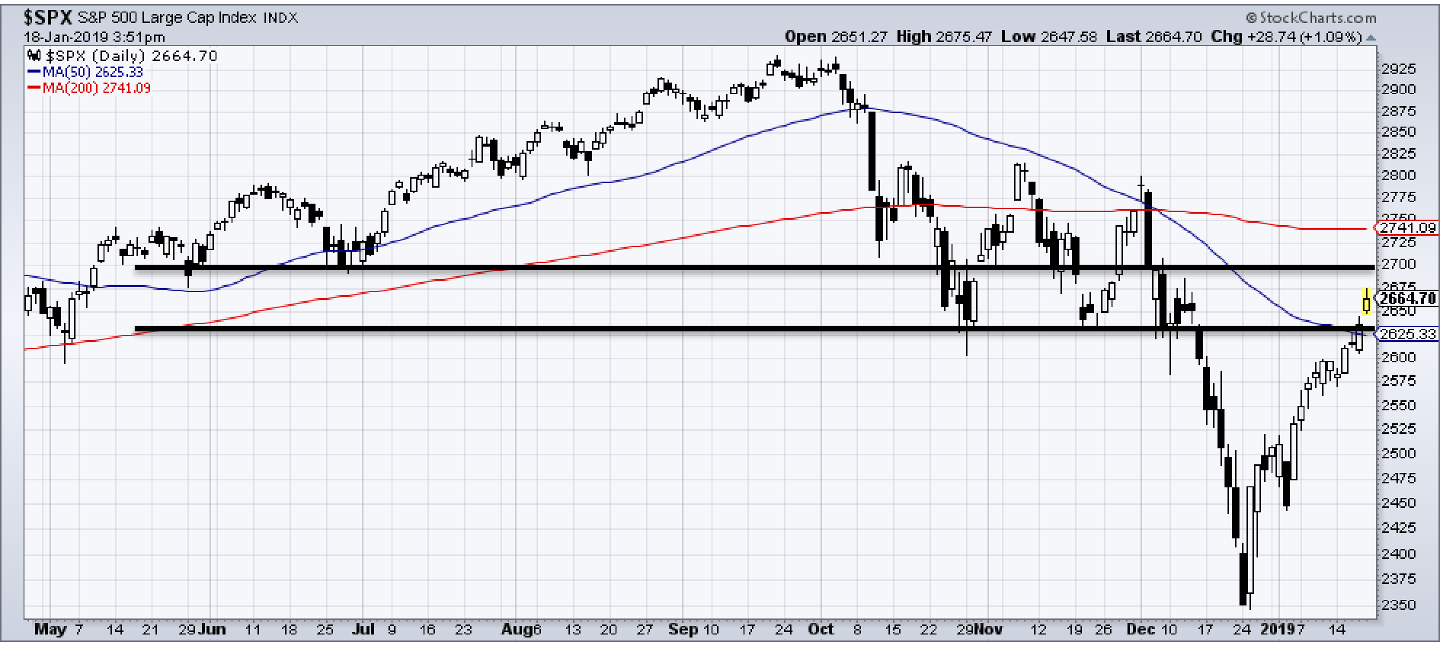
BILLS ASSET MANAGEMENT

BAM MARKET NOTE

JANUARY 18, 2019

SAM BILLS (865) 525-1329
BO BILLS (615) 371-5928



Our Point

With rumors of movements towards a tariff solution or at least a pause in the implementation, the markets have surged upward over the last two days. With today's advance, the S&P is now up 10 of the last 12 trading days. With an annualized return over the last 12 days of over 600%, the pace of the advance will need to pause over the coming days. The resistance line we have been watching was pierced to the upside with today's gains lending increased credence to the validity of the rally. The next level of resistance is just above current levels at 2700. With no pullbacks to speak of over the last two weeks, it will be very instructive when the next pullback comes. If such pullback holds above old resistance (now new support) at the 2630 area, then it would be further evidence that the rally is here to stay and a revisit to the late 2018 lows will have to wait awhile. However, investors should be wary of chasing this rally and instead wait for a pullback to determine the validity of the current advance and to get a better entry point. The market is overbought in the short-term so it is likely some weakness will enter the market soon. The on again/off again tariff talk was certainly on again this week and was the primary driver of market strength. It is hard to know whether China is playing checkers and the US chess or the other way around. In any event, both sides were making headlines this week. Whether or not anything will come of the talk is an open question and will likely lead to the next major move in the markets. Early earnings reports have come in mixed with some high profile hits and misses. Netflix reported disappointing results last night and fell 4% today but the rest of the market shrugged off the report. It is very positive that the markets are able to move higher in the face of high profile earnings disappointments. The veracity of the current move is hard to argue with and it certainly has our attention. It is never fun to be sitting out a rally but as the old saying goes, I would rather be out of the market wishing I was in than in the market and wishing I was out! Many of the investors that sat out the October through December decline have missed out on the partial (the market remains 9% from its September 2018 highs) recovery. While we made no portfolio adjustments this week, we are likely to make a number of changes if the current rally holds recent support. With the holiday on Monday, next week will be a short trading week. Have a wonderful weekend and enjoy the rain/snow.