

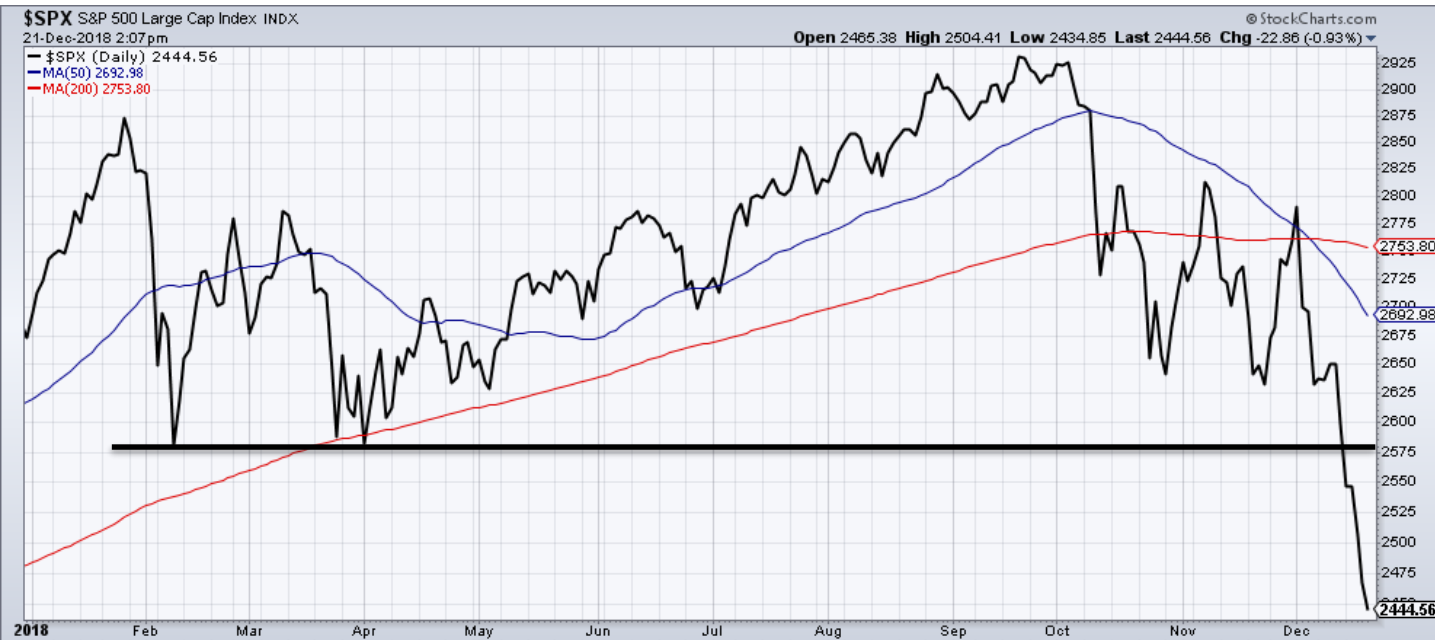
BILLS ASSET MANAGEMENT

BAM MARKET NOTE

DECEMBER 21, 2018

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Our Point

As we mentioned last week, the support from the February/March lows was going to be tested this week. What we didn't realize was just how little support this level held in the current market environment! The S&P blasted down through the support and is now in freefall. The carnage has been extreme. The S&P is now off 17% from its highs in September. Not to be outdone, the Nasdaq and Russell 2000 are down over 20% since that long September day. Amazingly, each of the major indices are down anywhere from 12-15% in December alone! Santa has definitely left the building and if these levels hold it will mark the worst December since 1931 (the throes of the Great Depression). No, we do not believe we are entering another Great Depression but we may very well be in the early stages of a very painful bear market. Oversold markets are not uncommon in a protracted downtrend and the market can remain oversold for some period. That said, it is likely that we will see a very strong counter-trend rally in the coming days. With the holiday trading schedule and lots of traders taking vacations over the next 2 weeks, volume will be muted and the oversold rally may have to wait. The current showdown in Washington over the budget and a probable government shutdown is a preview of the animosity and contentiousness that will pervade Washington over the coming 2 years. It will not be pretty and will likely lead to continued market volatility. We have been largely in cash for the better part of the last 2 months but for those investors still holding onto their positions, we think they would be wise to take advantage of any strong rally to lighten up on their holdings. The markets are showing no signs of a bottom and there is very likely more pain ahead over the coming months. Our purchase of a utilities fund last week was ill-timed and promptly lost money. Fortunately, it was a small position and has begun to stabilize. We are watching the position closely but have not yet been stopped out. Our other positions have performed admirably and are currently up a little for the month across all our portfolios. It has not been an easy market and will continue to be challenging into 2019. Risk management and capital preservation are non-negotiable in these markets – ensure that you are abiding by those rules. We will be taking a hiatus next week to celebrate the holidays with family but will be back in 2019. We hope your holiday season is merry and that your 2019 proves to be your best year ever! Merry Christmas and Happy New Year.

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