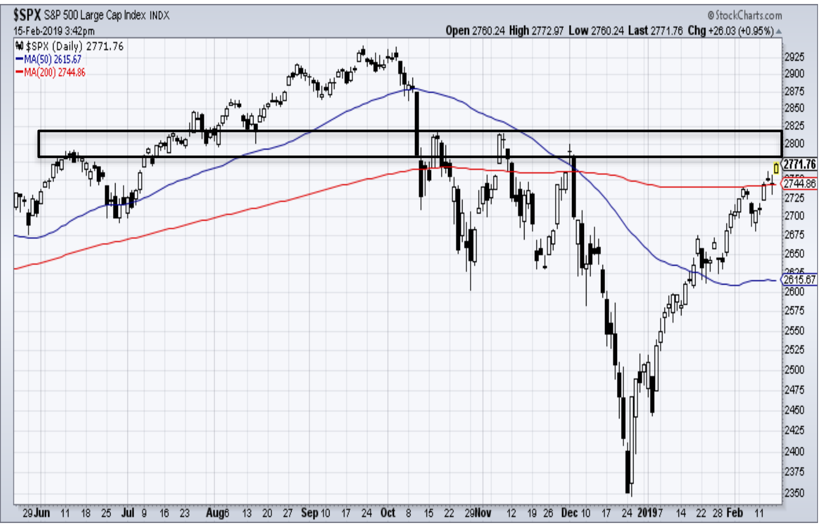
BILLS ASSET MANAGEMENT

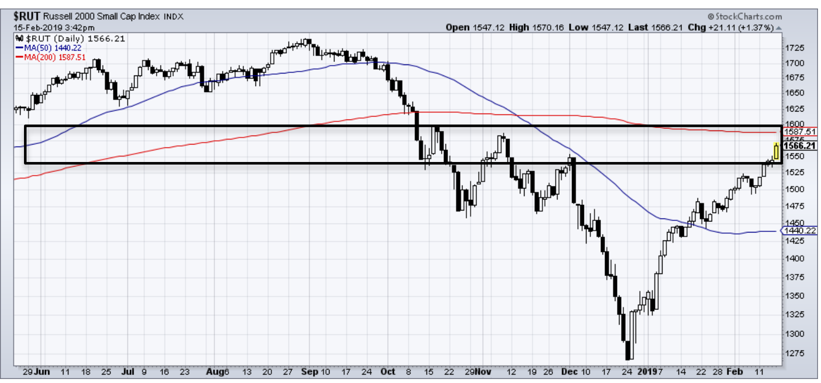
BAM MARKET NOTE

FEBRUARY 15, 2019

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



The S&P marches on. In fact, all resistance levels to this point have proven to be speed bumps only serving to slow the advance for a few days before another leg up. The markets are fast approaching another resistance level. This one is a little more significant so we will see if the pattern of the last 6 weeks continues or if the market corrects a bit before making a run at the highs of last year. Technically, the S&P remains in an intermediate/long-term downtrend but it sure doesn't feel that way. We keep thinking that the pace of the current rally has to slow but it continues onward and upward. We will have a sharp correction sometime soon - whether next week or in a few weeks is anybody's guess.



The Russell 2000 is confirming the "risk on" mood of the market as it has largely led the recent advance. As with the other major indices, it has only paused a few times during the advance before embarking on another run upwards. As longtime readers know, we believe the Russell often foretells the strength (or weakness) of the market. There is no doubt that the strength of the Russell bodes well for the market. Strong resistance (again) lies ahead so we will soon see.

Our Point

There are many reasons to doubt this rally. It has come too far too fast. The technical damage done in the 4th quarter of 2018 is too much. The trade tariffs remain a significant hurdle. The government is divided with investigations starting on many fronts. The Mueller report is due out anytime. World economies are slowing and some near recession territory. The strength of the US economy is in some doubt. Etc, etc… The reasons to doubt are numerous and, yet, the market marches on. The power and influence of the Fed (and world banks) is not something to trifle with. Never fight the Fed. And so, with the Powell pivot a few weeks ago, the markets continue to believe that any weakness in the markets will be met by an accommodative Federal Reserve. The thinking has served this market well for several years and may well continue for some time. However, at some point in the future, either the Fed will not be so accommodative or even a dovish Fed will not be able to withstand the selling. We aren't there yet. Meanwhile, the market continues to cheer any positive developments – whether it be in the economy or coming out of the China negotiations - while discounting any negative headlines. For example, yesterday's retail sales report indicated that sales fell by 1.2% in December – the greatest decline in 10 years and the market yawned. Something (Fed only?) is driving this market that is not yet clear. Investors that got out of the market in late 2018 have not had a chance to get back in and so with each passing up day more and more jump back in fearing that they are missing the next bull market advance. We began making incremental changes a couple of weeks ago and made more changes earlier this week. This week we added an equity position in real estate and two different bond positions. We will be looking to add to our equity positions on any market weakness. It was not so long ago that the day before a Tennessee/Kentucky basketball game was met with some trepidation. That is not the case this year as the #1 Volunteers head to Rupp Arena tomorrow night. Anticipation has replaced trepidation! I will be traveling next Friday so next week's note may be delayed a day. Enjoy your weekend.