BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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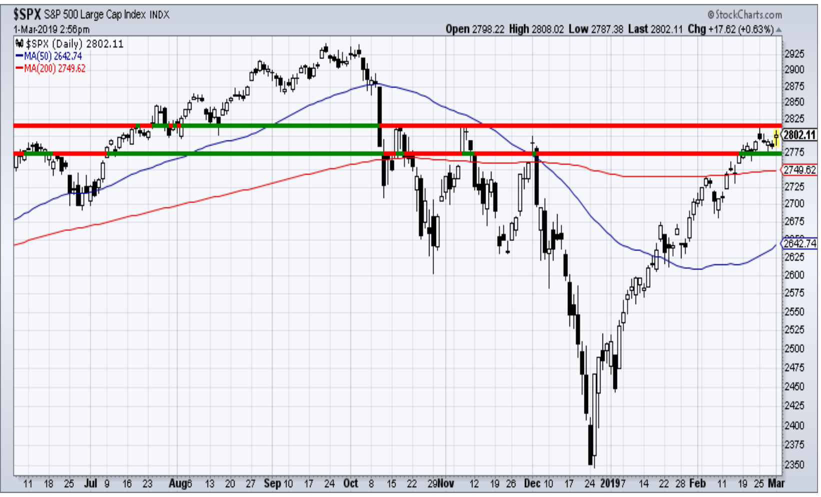

The market has meandered over the last two weeks. That is not all bad as it needed a rest to consolidate its recent gains. The S&P is once again facing significant resistance in the 2800-2814 area. Often round numbers (2800) provide some psychological resistance/support. In the current market, the 2800 area holds even more importance as it marks the area where the market failed back in November after the steep October sell-off. To this point, the bulls have laughed at any type of resistance and barreled through. The pause at current levels may be just that or the beginning of a more significant pullback. We'll soon see if the bulls have the commitment to push through yet another area of resistance.

One reason for continued optimism is the current behavior of interest rates. Generally, rising rates indicate a move out of treasury bonds and into the equity markets. Over the last 2 months rates have been declining while equities were marching higher. The divergence raised questions on the validity of the market surge. However, in the last few days, treasury rates have begun to move up again. Perhaps this is a harbinger of more market participants moving out of the safety of T Bonds and back into the market. This development could be the fuel to push the markets back up to their 2018 highs.

Our Point

The resiliency of this market is nothing short of astounding. Despite a number of reasons why it should enter a period of correction, it simply continues marching on. If the bears are going to state their case, the current market area is their last best chance to do so before a climb to the highs of 2018. Continued optimism of a soon to be announced trade deal with China is the common reasoning behind the markets recent moves. We don't disagree but think a trade deal is mostly priced into the market. Any failure to reach such a deal and/or the continuing or expansion of tariffs will likely lead to a sharp sell-off. With earnings season mostly behind us, trade talks, economic measures, and the Fed's interest rate tone will be the drivers over the coming month. US markets continue to outpace the rest of the world. As noted above, the recent increase in rates could be the first sign that investors that moved into the safety of treasury bonds during the brutal 4th quarter of 2018 may be beginning to return to the equity markets. This would be a very positive development and would provide the needed fuel for the markets to continue upward from here. Small caps and high yield bonds (not shown) are showing no signs of exhaustion which are further confirmation of the strength of this move. Markets can change quickly and the current pace of the advance cannot last forever. We are still likely to see a significant pullback in the coming weeks. However, all signs point to a resumption of the uptrend once the pullback has run its course. With so many investors pushed out of the market the latter part of 2018, we suspect that any selling would be met with buying by those investors trying to find a good entry point back in the market. Our portfolios are close to 70% invested with holdings in equities, high yield and convertible bonds. We are likely to add to our equity positions on a market pullback. Two weeks ago, I mentioned the lack of trepidation heading into the Vols and Wildcats matchup in Lexington. That did not go so well. However, redemption can and I expect will come tomorrow. I am hoping so anyway! Enjoy your weekend.