Bills Asset Management

BAM MARKET NOTE

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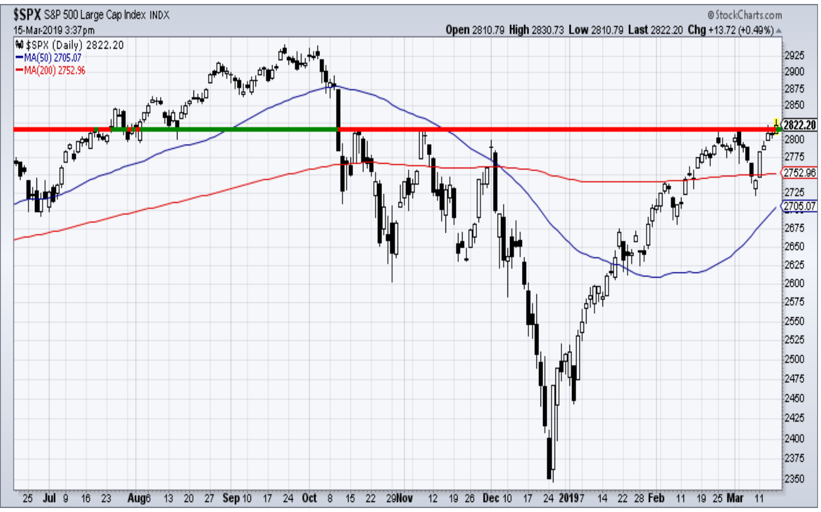
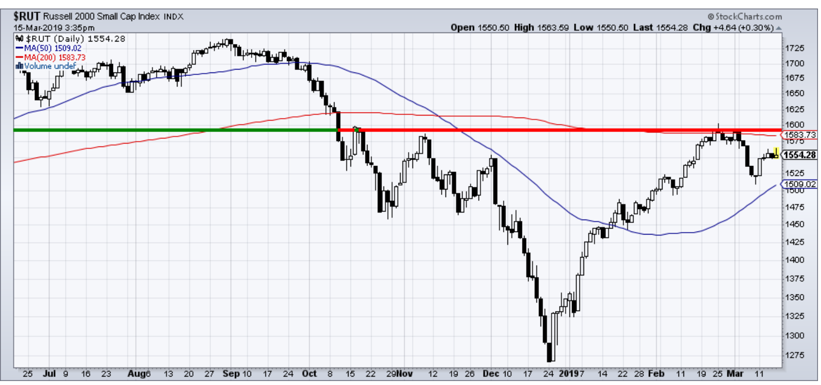
March 15, 2019



Just when you think the bears have gained the upper hand, the bulls come roaring back. After a modest decline last week, buyers returned and pushed the S&P back up to the resistance line the market has been trying to breach for the last month. The S&P closed today right at resistance and further strength will set the stage for a run at the highs of last year. While last week's weakness was the greatest of 2019, it was mild considering the gains since the Christmas Eve lows. It remains unusual that the bears cannot gain a foothold and bears witness to the strength of the rally and the number of investors that got out in December and are now clamoring to participate in the rally. We aren't out of the woods yet but are certainly in a much better position today than last Friday!



We don't want to nitpick but one cause for some concern is the lack of leadership from the small-caps. After leading the market higher earlier this year, the Russell 2000 has failed to rally convincingly this week and remains well below its resistance line. It may just be a normal pause or it may indicate some inner market weakness that is not yet apparent in the major large cap indices. We will know soon enough as small caps either make a run at their 2019 highs or turn down with the rest of the market in tow.

Our Point

The strength of this market is undeniable and any hint of weakness has been met with buying interest from those investors that have missed out on the rally from the Christmas 2018 lows. Last week was the perfect set-up for some additional selling and profit-taking – and, yet, the market bounced back this week and is making another run at breaking through significant resistance at the October and November 2018 peaks. With each failed attempt, the resistance gains in importance. The market remains a little less than 4% from its 2018 highs and not much stands in the way after the current resistance level. The Fed will hold its next policy meeting next week. With various economic measures showing weakness in the US economy, it is all but certain that the Fed will do nothing to current interest rates. What will be more important is any shift in language or expectations of further rate increases later in 2019. Additionally, any comments regarding the Fed's current policy of unwinding its balance sheet could be a market mover. While the Fed headline might be a snoozer, reading between the lines could lead to significant market movements. As noted above, small caps are lagging the market and is cause for some concern. Additional concern comes from the current sector leadership. While technology is one of the current leaders, utilities and real estate are the recent outperformers. Continued leadership by "defensive" sectors may put a damper on the current rally. Not that we are complaining as our holdings in both real estate and utilities have done very well! We made some portfolio changes this week as we added positions in technology and in Europe. While it is sometimes difficult to understand why things are going up, it is often easy to see that they are. Europe is one of those right now and is in a very stable and good uptrend. It is one of my favorite times of the year as the daylight hours are longer, the birds are beginning to come out, grass is growing, and basketball tournaments are in full swing. March madness is a wonderful thing and after 30 plus years, Kelly has come to understand that over the next 3 weeks house projects will take a back seat to buzzer beating games. Let's hope your team makes the tourney and survives into upcoming weekends. Enjoy your weekend whether outside or parked on the couch.