BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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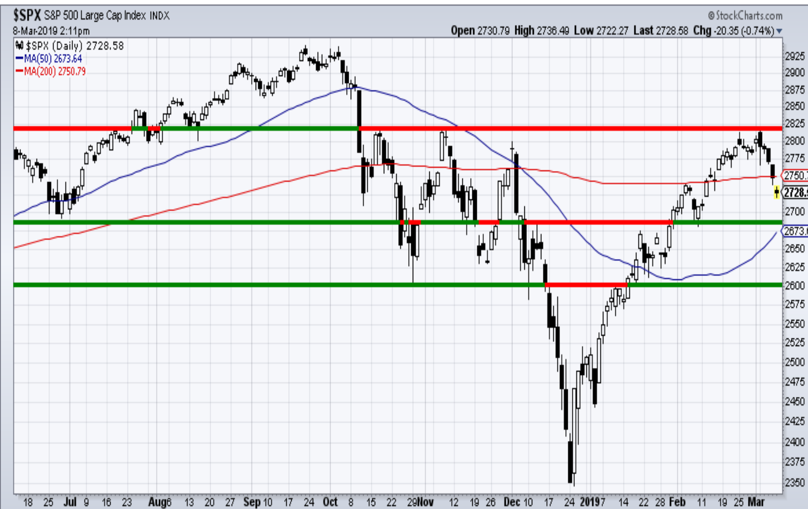

It appears that the bears are reasserting themselves. The pause that we discussed last week around the 2800 area has not turned into a pullback/correction. To this point, the decline has been measured, calm and orderly. The S&P has declined a little less than 3% over the last week. After the large run up since the day after Christmas, the market was overdue for some profit-taking. We will have to see if it is anything more than that. Some level of support lies just below 2700 with much more important support at the 2625 - 2600 level. A healthy market has periods of strength followed by minor bouts of weakness before strengthening again. We have had the strength, are experiencing some weakness, and will know soon if strength returns.

As readers know, we place great importance on the movement of small cap markets. The broader market will often take their cues from their small cap brethren. If that is true in the current case, we are likely to see a little more weakness from the broader market. While the S&P has declined less than 3%, the Russell 2000 has declined a more substantial 4.5% over the same period. Small caps were turned away at their 200 day moving average and have traded down since. The relative weakness of the Russell is worth watching for clues to the depth of the current market decline.

Our Point

The current market weakness is nothing out of the ordinary. In fact, the last 2 months have been unusual and this is the first typical market behavior we have seen in a while! A healthy pullback would shave 30-50% off the previous advance. For the S&P, this would put his squarely in the middle of the support bars marked above (somewhere between 2600-2650). The current decline likely has more downside to come. V bottoms like we experienced the day after Christmas are somewhat rare (even more so after a watershed decline like we experienced during the 4th quarter of 2018). The rarity of that type of bottom have more than a few wondering if we will retest those December lows sooner rather than later. In the absence of the Fed, we would tend to agree. However, the Federal Reserve's apparent willingness to do everything possible to keep the market from declining too much gives us pause. More likely than not, we will see a healthy correction before the market stabilizes and moves back up to take on the highs of last year. As we have stated in prior notes, many moved out of the market last quarter and never had an opportunity to get back in due to the sharpness of the rally over the last 2 ½ months. The current weakness will provide that opportunity and we suspect buyers will return once the correction has run its course. In any event, the above analysis is much more an academic exercise rather than an investing strategy. We will follow the charts and invest accordingly. This morning's job report was horrendous. New jobs came in at 20,000 (much lower than the 172,000 forecasted) and clouds the economic outlook. There were some positives in the report but the headline number is what most market participants focus on. Jobs reports are notorious for their revisions so we may well see an upward revision to this number next month. In any event, the weakness pours more water on the thought of the Fed increasing rates later this year and the idea of a rate cut is beginning to be whispered. We made no changes to our portfolios this week and are comfortable with our holdings. We are watching closely and will make adjustments next week should the selling intensify or if the market stabilizes and provides a good buying opportunity. March Madness is right around the corner – let's hope it doesn't bleed over into the markets!

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