BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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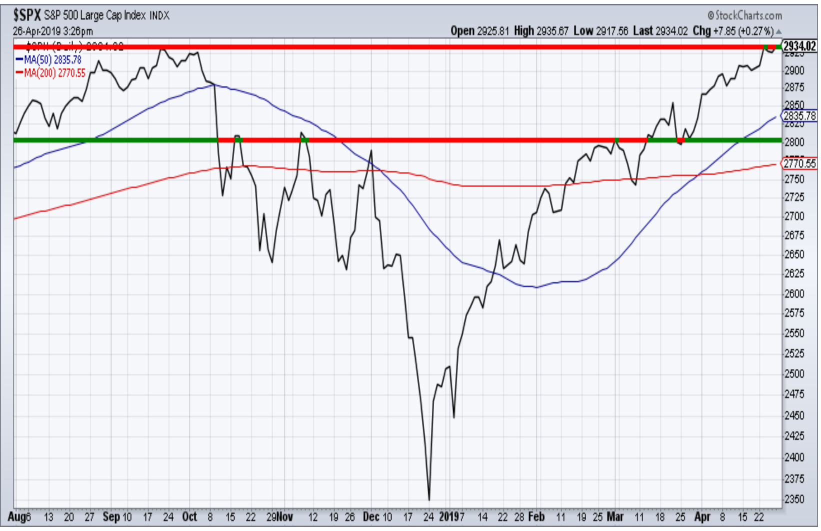
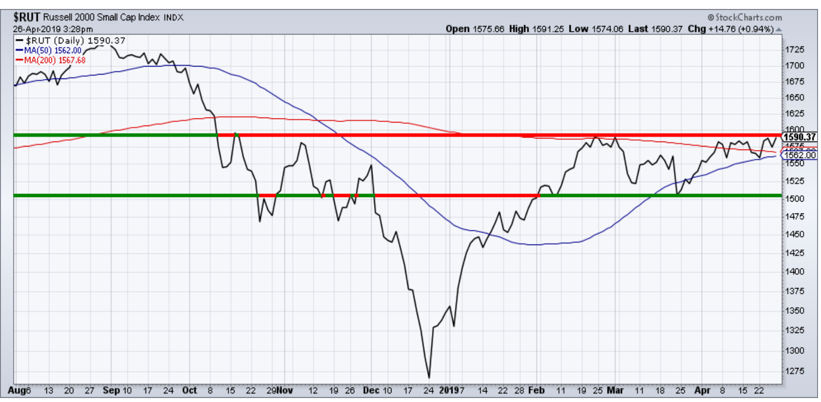


It has been another mostly quiet week on Wall Street as the S&P continues to creep up to the highs of last year and significant resistance. It is currently right at those levels. Similarly, the Nasdaq composite is in the process of testing the same resistance while the Nasdaq 100 (100 largest non-financial companies listed on Nasdaq – mostly large technology) has breezed through resistance and is leading this market. The Dow and the Russell 2000 are bringing up the rear and still have some work to do to challenge the highs. The S&P has resistance at current levels and support in the 2800 area. A pause or pullback at the current level would not be unexpected though we may see a slight break above resistance before that happens.



As mentioned above and for a number of weeks in this missive, the Russell 2000 continues to lag significantly and is cause for some concern. It appears that we will get some resolution soon as both the Russell 2000 and their large cap counterparts are testing their own areas of resistance. A break one way or another by either index will likely lead to the next significant market move. It is unusual for large and small caps to diverge for long and small caps have treaded water for 2 months while the rest of the market has marched onward and upward.

Our Point

The Fed meeting next Tuesday and Wednesday will garner even more interest with this morning's surprising first quarter measure of the economy. "Experts" expected a 2.5% increase in GDP but the number came in significantly higher at 3.2%. With the Fed's recent dovish talk, it will be interesting to see how they paint the impressive 1st quarter growth. If their talk becomes more hawkish, then the markets may react negatively. If the Fed indicates a continuation of their current pause in rate increases, then it could be the best of both worlds – low rates AND a growing economy. Earnings have been largely as expected though expectations had been lowered over the last several months. While there have been a few high profile misses, there have been an equal number of high profile beats with technology continuing to lead the way. The earnings parade will continue next week and, with the Fed meeting, will provide lots of fodder for investors to chew on. While we have harped on small cap performance for a few months, our concern is tempered by the performance of the high yield market. High yields have continued a steady upward climb and it would be unusual for the market to turn down significantly without some warning from this sector of the market. We made some minor portfolio adjustments adding to one of our existing positions in the small/mid-cap space. Despite general small cap struggles, this holding has been a stand-out and has outperformed the market. Utilities remain on our sell watch list but continues to hold up. The tone of the Fed meeting could lead to volatility in the utility space as it is very interest rate sensitive. Next week could be a very interesting week! Enjoy your weekend and get out and play in the sun a little.