BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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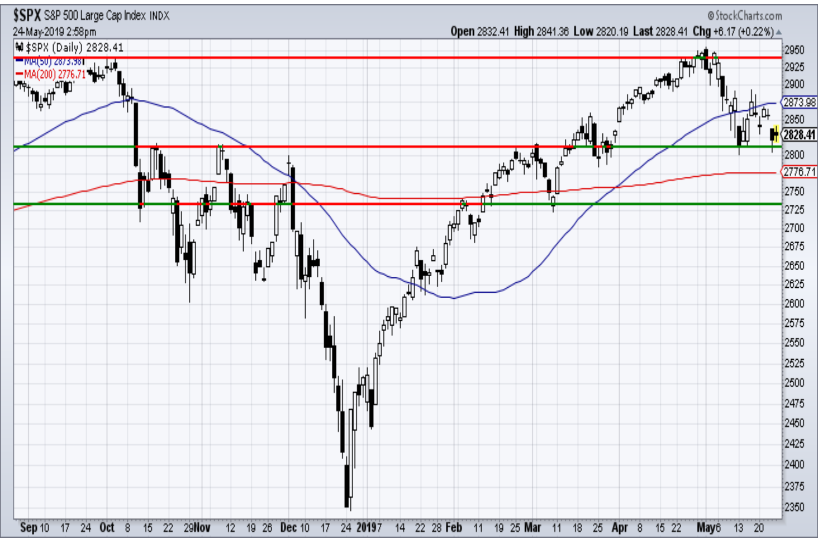

We have carried forward the same S&P chart we have been watching for the last few weeks. As you can see, support around 2810 has held to this point, though breached intraday a couple of times over the last few weeks. Importantly, the market rallied at the close yesterday to bounce off support and to give some hope to the bulls. Despite this week's weakness, the S&P remains in the trading range bound by the highs of last year and the current support level. Movements between these two levels are mostly noise and a break one way or the other will determine the next significant market move. With the current market weakness, many investors are on edge and it would not take much in the way of news for another selling wave to develop.

Interest rates are in an intermediate down trend. The down trend accelerated this week as the much watched 10 year treasury rate fell 4% before rallying some today. Bonds, utilities and other defensive areas of the market were the beneficiaries of the flight to safety; while financials and other interest rate sensitive areas took the brunt of the rate decline. The bond market seems to think that a Fed interest rate cut is more likely than an interest rate hike and that deflation is more of a concern than inflation.

Our Point

British Prime Minister Theresa May resigned this morning throwing more confusion in the ever confusing Brexit debacle. The markets have taken it in stride to this point but an unexpected replacement Prime Minister by the British Parliament could shift the Brexit debate one way or another and could roil markets here and in the European Union. It is something to watch. In the US, semiconductors (see last week's Market Note) further broke down this week providing a cautionary environment for investors. Small caps have continued their relative weakness and, like the S&P, tested support this week. As with the S&P, support has held to this point but it would not take much selling for this important level to break. The 1500 area of the Russell 2000 is the area to watch. As we write this, the markets are holding onto modest gains to end the week. With a long holiday weekend, a positive finish to the week is a welcome development that will hopefully carry over into next week. Despite the market weakness, our portfolios have fared well with a mix of bonds, utilities and equities. We added a position in municipal bonds to all portfolios and have a small amount of cash that we are waiting to deploy depending on market conditions. A few of our equity and high yield bond positions are nearing their sell stops and would likely be sold should they weaken much more. With the S&P near the bottom of the trading range, we should get some resolution next week with either a rally into the middle of the trading range or a break down out of the trading range. With little in the way of earnings and economic reports next week, investors will be watching twitter to parse any tariff talk. With Memorial Day on Monday, we wish to thank our military readers and their families for their service and the sacrifices they have made to ensure the freedoms we enjoy. Enjoy your cookouts and your time with family and friends this long holiday weekend.