BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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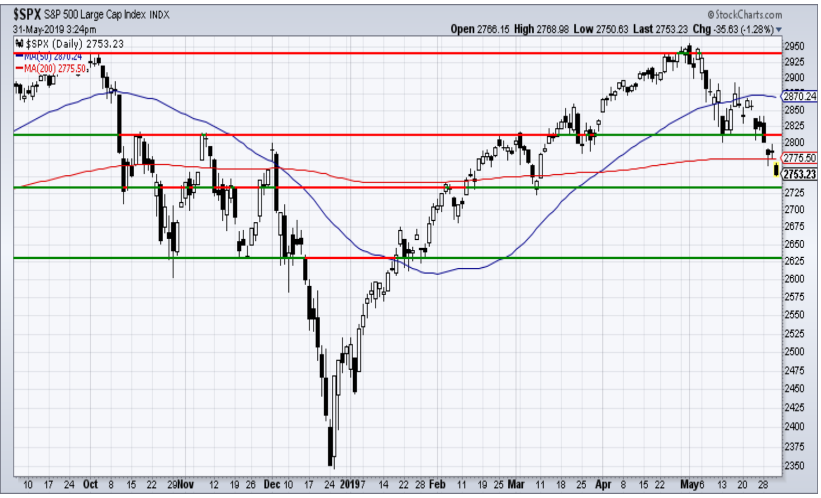
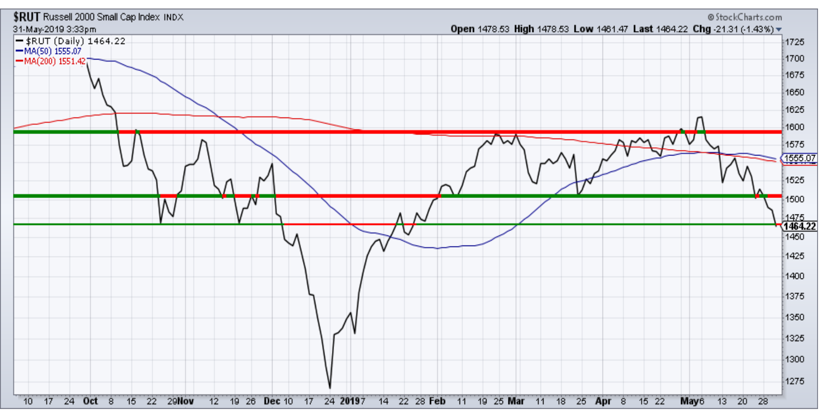
MAY 31, 2019



It's never fun to add new support levels to an existing chart! However, as the S&P approaches support around 2725, adding the possible next leg down becomes necessary. It is very likely that the 2725 area will be tested in the next week or two. Should that fail, we have to go all the way down to the 2625 area (another 4%) to find any significant support. The index also breached the 200 day moving average and shows no sign of slowing any time soon. The only silver lining is that the markets are becoming oversold so a counter-trend bounce should develop in the next few trading sessions. The character of the bounce will tell us a little more about where we might expect to see a bottom in the current down market.



If you believe the Russell 2000 provides clues to the direction and health of the overall market (which we do), then this chart provides fair warning that the worst of the selling may not be over yet. With the Russell hovering at support, it will take a market turnaround next week to stem the losses. Failure at this level by the Russell would open up the very real possibility of a revisit to the December 2018 lows. For the Russell, there is very little support between current levels and the December low. Next week will be very important and the Russell is the index to watch.

Our Point

Tariff tantrums are beginning to look like outright fights as the tariff battle moves to Mexico with the White House's new threat to impose graduated tariffs over the coming months against Mexico. As it is now, the only way for Mexico to avoid the tariffs is to step up its efforts in concrete ways to curb the immigration issue emanating from and through Mexico. On the Asian front, China ratcheted up the rhetoric by threatening to limit the sale of rare earth metals to the US. China controls about 90% of the rare earth metal market. Rare earth metals are used in a number of electronics and major weapons systems so the veiled threat has real consequences to both the economy and national security of the US. The predictable result has been continued weakness in US and world markets. Nobody wins a trade war so hopefully the US, China and now Mexico can work something out that all can live with. May has been a brutal month for all of the major indices. The small cap Russell 2000 and the tech laden NASDAQ led to the downside - both shedding almost 8% for the month. The S&P and Dow were both down 6.5% - 7%. Our portfolios suffered along with the market but were down significantly less. Our aggressive and moderate portfolios look to finish the month down 2-3% while our conservative portfolio is flat for the month. We sold one of our equity holdings earlier this week as its sell stop was hit. High yield bonds have rolled over and are nearing their sell stop. Other bond holdings have done well as interest rates continue to fall. The ten year treasury fell nearly 4% just today as a flight to safety by traders continues. Fed Vice Chairman Clarida indicated yesterday that the Fed would consider a rate cut if the trade war intensifies and/or the US or global economy falters. It was the most blatant dovish Fed talk in some time. Tariff's will dominate headlines and market moves next week and beyond. Investors would be wise to adjust their portfolios to their risk tolerance. Enjoy your weekend wherever you find yourself.