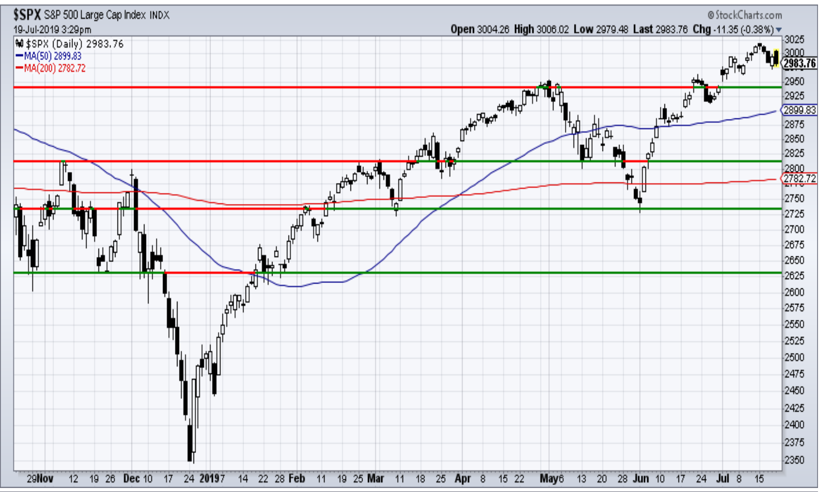
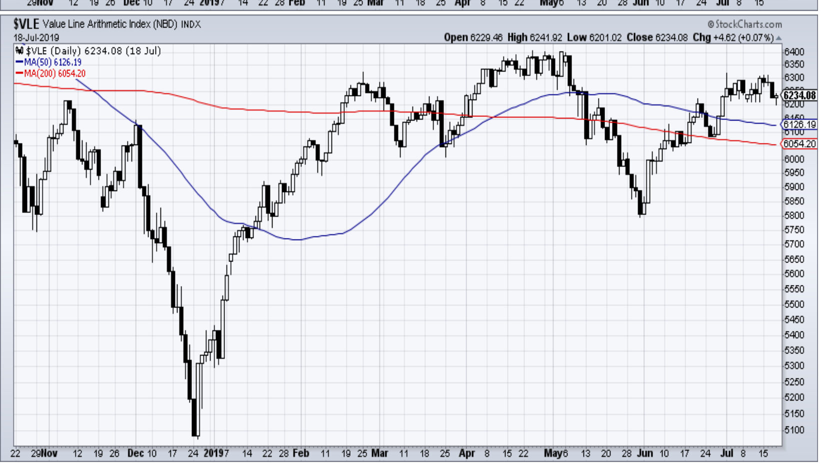
BILLS ASSET MANAGEMENT

BAM MARKET NOTE

SAM BILLS (865) 525-1329
BO BILLS (615) 371-5928

JULY 19, 2019





By and large it has been a quiet week with small daily moves. However, 3 of the 5 trading days have been down resulting in a weekly loss of approximately 1%. The market got a little excited yesterday with the prospect of a 50 basis point interest rate cut. However, some of the enthusiasm has waned today and the markets have drifted lower. The small decline is not unexpected and is constructive as long as the highs around 2950 hold. After a significant, quick move up, the large caps are digesting some of those gains. A sign of a healthy market is one where gains are achieved, followed by a period of consolidation and then another move up. Well have to see if we get another leg up.

Much of what we write focuses on the S&P 500 as it is most widely known and is a pretty good indication of what the stock market is doing. However, the Value Line Equity Index is arguably a better representation of the market as a whole. Instead of the 500 stocks of the S&P, it represents almost 1700 different companies. Another big difference is that the S&P is cap weighted (bigger companies will affect the price of the index more than smaller companies) whereas the VLE is equally weighted. As you can see, while the S&P has reached new highs, the VLE remains well below its highs. The largest of the large caps are running the show.

Our Point

Earnings and interest rates dominated the headlines this week. Iran would be a distant 3rd. Early earnings reports have been mixed. Netflix disappointed with a subscriber base that did not grow to expectation – it was punished with a decline of 14%. Microsoft exceeded expectations and rose 2.5% before giving most of it back in trading this afternoon. Earnings will continue to take center stage until the big Fed event at the end of the month. Meanwhile, daily rumors and Fedspeak will continue to create daily volatility. This morning the Fed Futures indicated a nearly 50% chance of a 50 basis point cut (the other 50% indicated a 25 basis point cut). However, by this afternoon Fed Futures had shifted to 75% for a small cut and 25% for a larger one. Regardless, the market is fully expecting a rate cut at the end of the month. Anything less and we are likely to see a big decline (the market does not like to be surprised!). In fact, it is very possible that the market sells off at the end of the month regardless of what the Fed does. Expectations are high and the Fed is unlikely to surpass them, so a buy the rumor sell the news mindset may be forthcoming. Iran continued its saber rattling this week as tankers have been seized and a military conflict edges closer. The markets have taken it in stride though oil has seen a slight spike up in price. Middle East tensions are nothing new so it will take a significant escalation to get the markets attention. Small caps continue to lag. We made no changes to our portfolios this week. While our bond holdings have stalled, they did not decline with the market and still look good. Utilities had a good week going before giving it back today. Our other holdings have performed as expected. We have a small amount of cash available and will look to put that money to work upon a successful retest of the support at the old highs. We remain on baby watch here and are hoping our new grandchild will arrive in the next day or two. It could be a very exciting weekend for us! Enjoy yours.