BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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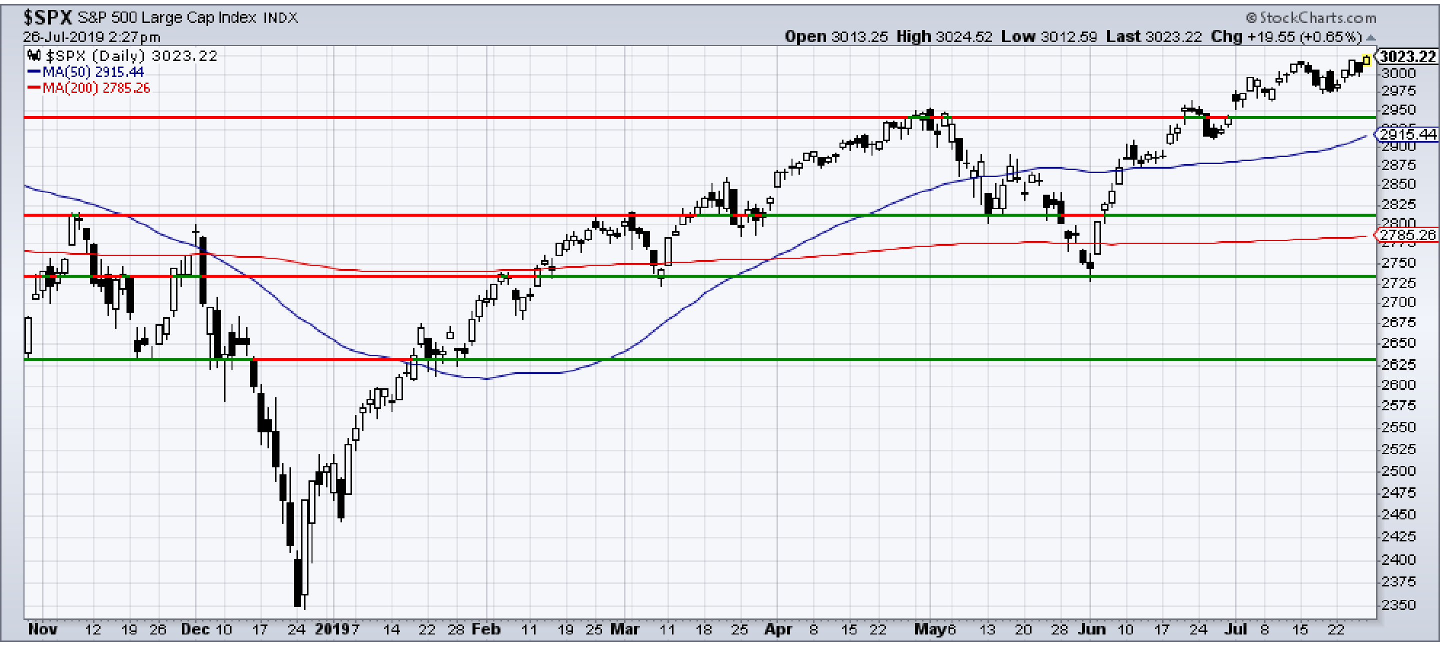

Our Point

Last week's slight down move was recovered this week and the S&P stands at new highs just above the close two Friday's ago. Earnings continue to be mixed but it seems the misses are not punished as much as the winners are rewarded. Yesterday, Amazon disappointed and is down 1.5% today. Meanwhile, Google surprised to the upside and is trading up over 10%. Certainly, Wall Street is in a good mood. Second quarter GDP was reported this morning coming in at 2.1%, significantly above the 1.8% expectation. The relatively strong GDP lessens the chances of a 50 basis point rate cut and an argument could be made for even a 25 basis point cut. However, expectations of a rate cut are such that it would seem a near impossibility for the Fed to disappoint. We expect the Fed to lower rates by a quarter percent next Wednesday but the language that accompanies the rate cut could disappoint. Certainly all eyes will be on the Fed next week and investors should expect increased volatility Wednesday after the announcement and through the end of the week. If the Fed meets market expectations, it would not be surprising to see a small sell-off. However, surprises by the Fed could create a greater sell-off as a ratcheting down of expectations going forward would disappoint Wall Street and a 50 basis point cut could scare traders. Until Wednesday we wait. July's reputation for weakness did not come to fruition this year as all the major indices churned higher. However, August's reputation is not much better so a period of some weakness would not be unusual. Any weakness that holds above the S&P support level around 2950 should be bought. Bonds have slowed the torrid pace they set in June but are still achieving excellent risk adjusted returns. For example, our emerging market debt holding was up an annualized 39% in June but has scaled back to an 11% annualized return in July. Through June and July the maximum drawdown (the amount from its high to its low over that period) was .19%. Those are excellent risk adjusted returns! We have made no portfolio adjustments heading into the Fed meeting but could make several changes based upon the market's reaction next week. We are not only waiting on the Fed here but still waiting on our new grandchild! He was due last Thursday and is now fashionably late. The Dr. expects an appearance this weekend so … we wait! It should be an exciting weekend for us and we hope you enjoy yours as well.