BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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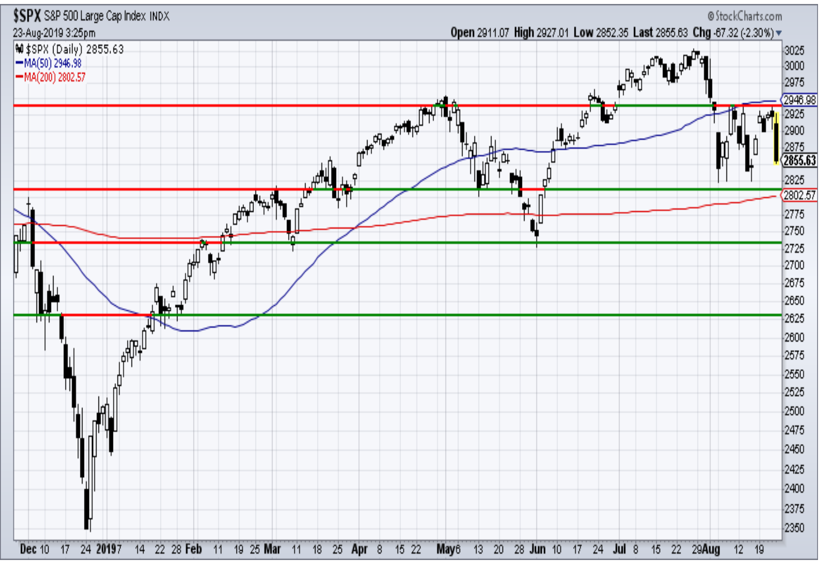
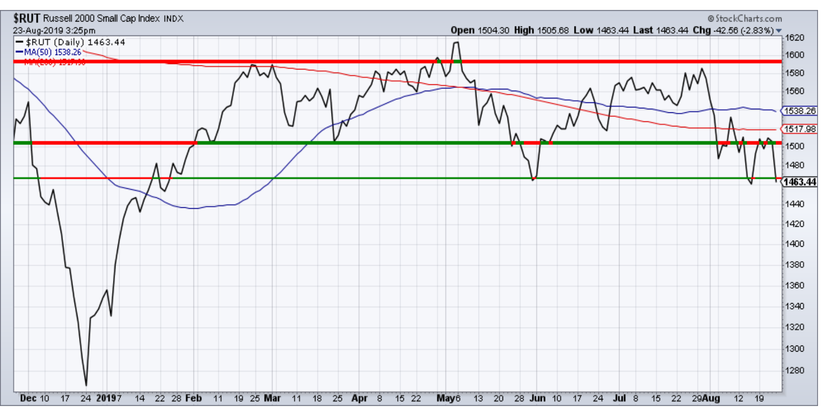


Another week, another roller coaster. After a mundane start to the week where the S&P kissed the top of the trading range, the index sold off hard today and is back in the lower quarter of the trading range again. It would not be surprising for the market to continue down to the trading range support next week. As we have been saying, we are range bound – until we are not. The market is struggling for direction and until the lower or upper trading range bands are broken, the day to day moves are largely meaningless. Unless you are a day trader, trying to make money trading equities in this market is difficult at best. The performance of the Russell 2000 (below) is a warning that more weakness may be afoot.



While large caps are in a trading range, small caps are in a down-trend (lower highs and lower lows). In fact, the Russell 2000 is dangerously close to losing the support found at the 1460 level. While there is minor support below this, there isn't much and very little standing in the way of small caps really collapsing. This doesn't bode well for the rest of the market and further weakness in the Russell 2000 should be respected and should cause investors to get much more defensive. We will have to see if small caps can stage a rally next week to keep from breaking down completely.

Our Point

Just when it was looking like it might be safe to get back into the water, China raises tariffs of their own and an errant tweet is thrown. The market looked to open up this morning to extend their gains for the week. However, tariffs stole the headlines as some heated rhetoric lead many investors scurrying for the exits. The prospects of a continuing trade war is elevated for now. However, as we have seen before, things can change quickly and just as investors fled this afternoon they can easily be wooed back in with a positive tweet or news out of China. Such as it is with a headline driven market. The danger lies in the market scurrying too fast and hitting levels that would cause the program traders to start selling. If that happens, we would see a sharp decline that lasts for several days instead of several hours. However, we are getting ahead of ourselves. The market weakened today but remains in a well-established trading range. Until that trading range is breached to the upside or downside, investors would be well served to ignore the daily movements. Treasury yields are down 5% today as traders seek the safety of government bonds. The fall in rates continues to benefit our bond holdings. Fed Chairman Powell spoke this morning and his comments were generally dovish but gave no further indication of future rate moves. It was interesting to see the recently released Fed minutes where you can see a less than unanimous Fed in regards to future rate cuts. The Fed continues to walk a very slippery slope. We made no changes to our holdings this week and will continue to wait for sustained market direction before making any big moves. Speaking of moves, we move our youngest daughter back to school for the last time this weekend (she graduates in December). It will mark the end of a long chapter in our lives. While I am sure there will be some sadness, I sure won't miss college move in days! We hope your weekend is moveless – enjoy.