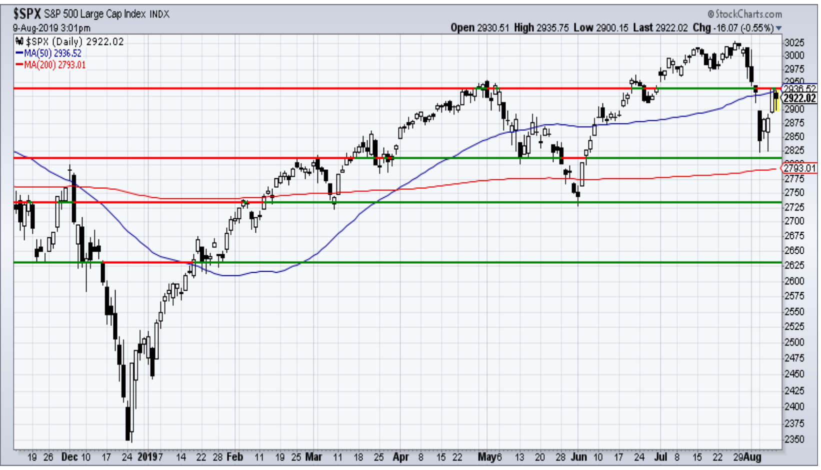
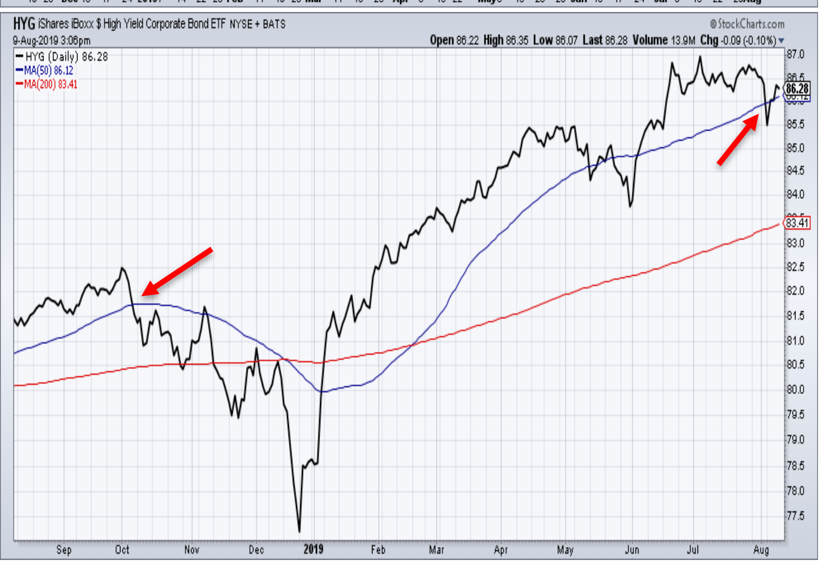
Bills Asset Management

BAM MARKET NOTE

August 9, 2019

Sam Bills (865) 525-1329
Bo Bills (615) 371-5928





As we mentioned last week, a quick drop below support is not troublesome but a longer multi-day drop would likely put the market squarely back in the several month trading range that persisted from March through June. Market volatility has been high this week with large daily moves and even larger intra-day moves. Despite the wild moves, it looks like the S&P will finish the week about where it started. After testing the lower bounds of the range on Monday and Thursday, the market has bounced back to test the upper bounds of the range. It has been quite the rollercoaster. Volatility is likely to continue over the next several weeks as investors digest the increased trade tensions and rhetoric.

Through the course of the week, we look at numerous charts and a myriad of technical analysis measures of various market indices and statistics. As long time readers know, two of our favorite "canaries in the coal mine" are the performance of small caps and of high yield bonds. While small caps have been flashing warning signs for much of this year, high yield bonds have generally been flashing the all-clear. HYG is a high yield ETF. As you can see in the chart, when it breaches the 50 day moving average, investors would be wise to lower exposure to the markets. When it rises back above the 50 day moving, exposure can be increased. There is nothing magical about the 50 day moving average but it works well for high yields. High yields briefly dipped below the 50 day moving average but have bounced back. We will be watching this over the coming weeks.

Our Point

It has been a crazy week with the Dow rising and falling by the hundreds on a daily basis and even within the same trading day. Despite all the volatility, the major indices close the week close to where they started it. The decline in the S&P did bring the index back to where it was in September of last year – effectively erasing the 4th quarter 2018 decline and the subsequent rally this year. There has been a lot of excitement to have gone absolutely nowhere over the last 11 months. Meanwhile our bond holdings have gone up anywhere from 5-10% over that same period with a small fraction of the volatility. Bonds aren't always the best investment vehicle, but in the current falling rate environment, the combination of return and volatility (risk adjusted return) is hard to beat. Trade, tariffs, and the Fed's response to it all will continue to grab headlines and drive market movements over the coming weeks. In a headline driven market, large knee-jerk moves can be commonplace. Absent good news on the trade front, the S&P is likely to remain constrained in its multi-month trading range. A surprise move by the Fed (not out of the question) could move the index out of the trading range. Early August could be a harbinger of things to come over the next couple of months. The early week decline moved one of our equity positions below its sell-stop forcing us to liquidate it. We have a little extra cash on hand which we believe is not a bad thing in the current market environment. We will look to reallocate those proceeds as market conditions warrant. Last week, Fidelity significantly increased the yield (now 1.9%) on a few of their core money market funds. We have begun the process of moving all our accounts into this money market to take advantage of the increased rates. Please let us know if you have any questions. Summer is winding down with school starting and Thursday night football airing. Enjoy your last few weeks of summer and have a great weekend.