BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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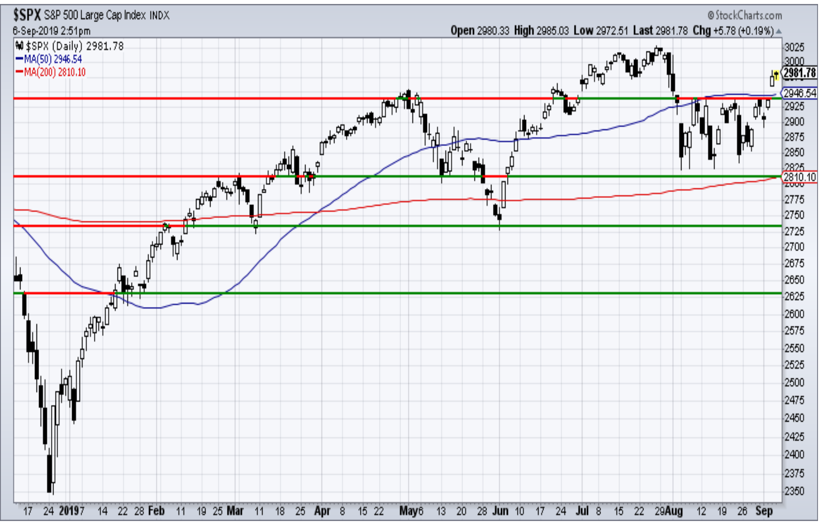

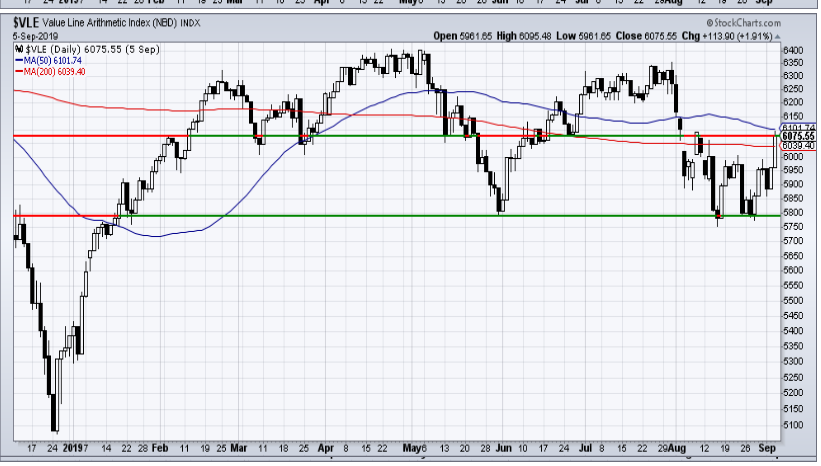

The markets finally broke out of the long-standing trading range on "newfound" hopes of a trade deal. Really, not much has changed on the tariff front but the markets are trading on hopes and headlines. That is not to say that the break-out should not be respected. Often, we don't know the reasons for market moves until months down the road. However, it does seem like the principal driver of this market is the on again, off again trade talks. Now that the market has broken to the upside, we should turn our attention back to the highs of earlier this year (3025). It is likely that we will revisit support (old resistance) around 2940 next week so that level will need to hold before getting too excited. Despite the upward break, there remain a number of reasons to be wary.

The chart of the Value Line Index (more representative of the entire stock market) paints a less rosy atmosphere. While the S&P has broken to the upside and is near its highs, the VLE is still at the top of its trading range and remains a healthy 5.5% from its highs. The VLE captures all market capitalizations and illustrates that large caps remain the best game in town. The index also shows that the market still has some work to do to shrug off the woes of August. We will be looking for the VLE to break out and the S&P to successfully retest its recent break-out of the 2940 level. Until then, investors would be wise to ease rather than jump back in this market.

Our Point

It has been a good market week despite September's well deserved reputation for weak markets. The S&P barreled through resistance after testing this level several times over the last month. Positive trade headlines were the likely catalyst, but as we have seen, headlines can be fickle. Negative news next week would drop the large cap index back into the trading range. Small and mid-caps have similarly strengthened which is a positive development and is reflected in the improving picture of the VLE (above). Follow through next week will be key. A couple of down days to digest the gains would be healthy but a break below support would be troublesome. Interest rates surged yesterday. The 10 year treasury was up over 7% but remains mired in a long-term downtrend. The surge yesterday put a damper on bonds. However, interest rates are not likely to go up much from here and bond holdings continue to be one of the best risk adjusted holdings in the current environment. With interest rates around the world near zero or below, the Fed is under pressure to lower rates and will most assuredly reduce them by 25 basis points later this month. A 50 basis point cut is not out of the question and would benefit both stocks and bond holdings of all types. We took advantage of the rate surge yesterday to add to our bond holdings. If the market continues upward from here, we will ease back into more equities but are comfortable with our current mix for now. I must have gotten my dates mixed up as Tennessee did not play last week! So, once again It's Football Time in Tennessee. It should be a glorious weekend with sunny skies and football on every channel. We will enjoy our weekend and hope you do as well.