BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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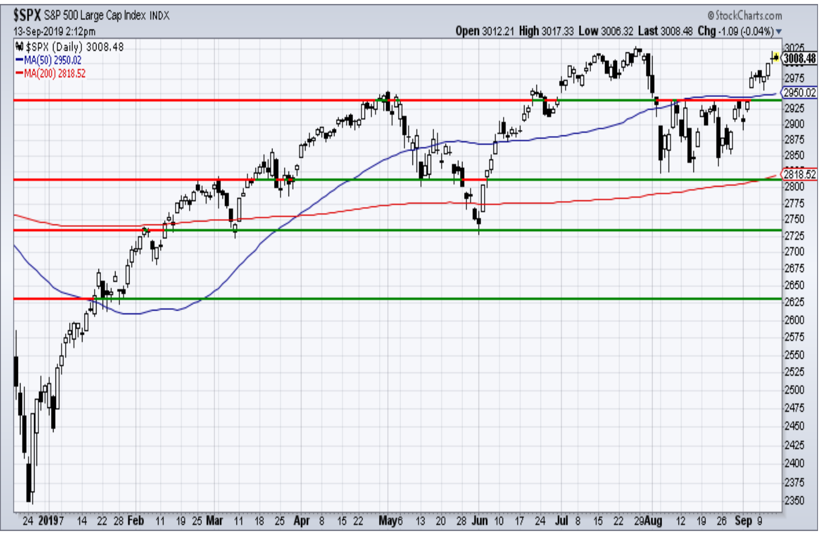
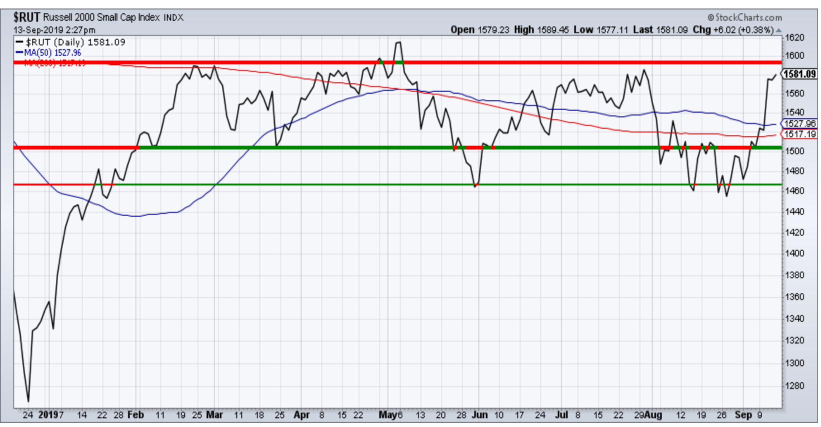


After breaking through resistance last week, the S&P spent this week churning slowly higher and finds itself close to ½% from the highs of the year. After last week's surge, we expected at least a return to the breakout but the market had other ideas. We still believe some pull-back will happen before a break to new highs. While there continue to be a number of reasons to suspect the rally, the charts do not lie and the recent market action is undeniably positive. We will see how the market responds to the next errant tweet or trade hiccup; but as long as the market holds above the recent breakout at the 2950 level, any declines should be bought. If new highs are made then it may be cause to shift more assets into equities.



After threatening to completely break down just two weeks ago, small caps have roared back with the Russell 2000 gaining over 7% in the last 7 trading days. Small caps are now leading the market but are approaching resistance that has held them back several times over the last few months. With such a strong move in such a short time-frame, some rest would not be unexpected. A small cap break above resistance here would serve to make an already positive market view even more so. High yields (not shown) are also confirming the market strength.

Our Point

The on again, off again trade talks are back on! It is a familiar refrain that has gone something like this: Administration is tough on trade with China, market sells off on trade fears, Administration hints at resolution, markets rally on news, no progress is made, Administration is tough on trade with China… Rinse and repeat. The markets have gone through this gyration for several months and, in all likelihood, it will continue. In any event, the market is currently rallying on hopes of a trade deal. Will it come? It is unlikely. China will play this out over the coming months in hopes of a friendlier Administration. If they don't get one next November, then some deal will be struck. It is a dangerous game of chicken but as long as the US economy remains relatively strong, the US has the upper hand. Should that change, then the US will be forced back to the negotiation table with a much less favorable hand. China has its own issues (nobody wins a trade war) but has the "luxury" of being State run so the populous won't revolt. We will see how the current talks end up but with all of the major indices getting overbought and near their highs, a sell off of some sort should be expected. The key will be for the indices to hold above the top of the trading range levels that were pierced earlier this month. The markets have experienced a dramatic shift over the last week. The winners from earlier this year have suddenly become the losers and vice versa. New leadership has emerged. It is too early to tell if this is a more permanent shift or just a temporary blip. We will know more next week. Interest rates have continued their bounce this week which has put a damper on interest rate sensitive sectors. Bonds, utilities and real estate have all been affected. Our holdings have not been unscathed and we are are watching them carefully. If this is a more permanent shift (we have our doubts), then we will begin making adjustments. Small caps have perked up considerably (a net positive). We made no changes this week but are ready to respond to evolving market conditions. Still waiting for "Football Time" to begin in Tennessee. It looks to be a long year. Enjoy your weekend.