

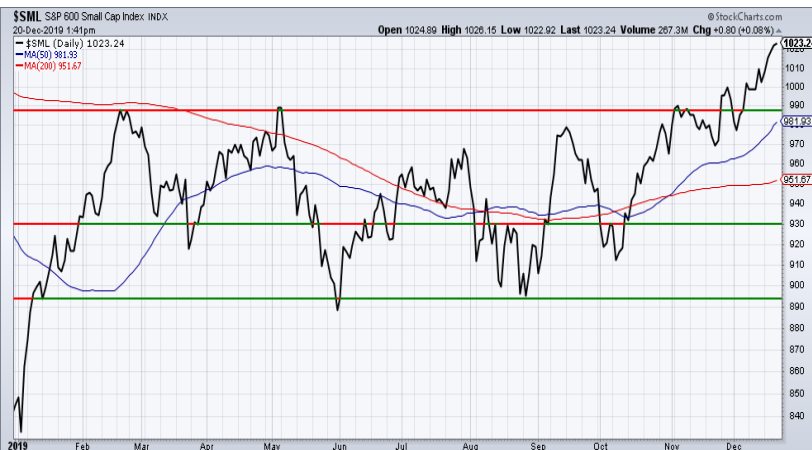
# BILLS ASSET MANAGEMENT

## BAM MARKET NOTE

DECEMBER 20, 2019

SAM BILLS (865) 525-1329

BO BILLS (615) 371-5928



What is not to like? Santa is well on his way to Wall Street. The market has been logging up day after up day. The market is overbought but, as we have said in these pages before, it can stay overbought for a long time in a bull market. We are in a bull market and it is difficult to find negatives in the current environment. While something could always come out of left-field, there is nothing apparent that would seriously disrupt the current positive market. The slow move upward is constructive as exuberance is being contained with small daily up moves. With the strength of the now 2 month move, it would not be surprising to see a sideways to down move over the next week or two. However, the end of the year strength may disrupt that view and may push any near-term weakness into early 2020.

As regular readers know, we have been high on small-caps for the last several weeks. On a relative basis, small-caps have been outperforming large-caps over the last month, though not as strongly as we had hoped. For December, the S&P 600 small cap index is up 3% while the S&P 500 is up 2%. It is not a drastic outperformance but relative strength nonetheless. December is traditionally a good month for small cap stocks and the last week or two of December are particularly strong. All signs point to this year being no exception. As noted before, small caps have lots of room to run as they remain 7% below their highs of 2018.

## Our Point

The markets have been churning higher over the last week. Little in the way of news has disrupted the move upward. The impeachment of President Trump has done nothing to roil the markets. Meanwhile, a calming of the trade tensions, the passing of USMCA, and a Fed that has its hand on the liquidity till continue to bring good cheer to the markets. The only apparent thing on the horizon that gives us concern is the passing of the clock from 2019 to 2020. Beginning the first trading day of 2020, large institutional investors and mutual funds will begin to make their bets on the winners of the new year. The result is often increased volatility as traders move from position to position. We are not convinced that the usual new year volatility will make an appearance but it is something we have our eye on and will be monitoring as the ball drops on another year. As always, there are those things that are not so apparent (black swans) that could put a damper on the holiday spirit but those events cannot be predicted – only appropriately acted upon. We remain steadfast in our view of reasonable returns with a view towards limiting volatility and downside risk. We made no changes to our portfolios this week and do not anticipate changes until the market changes its character. For now, we are enjoying the ride and are overweight equities and particularly small cap stocks. Successful investors never become complacent so we remain vigilant and aware and continue to watch a number of indicators for signs of concern. We see none currently but the market environment can change quickly. 2020 will likely be nothing like what the prognosticators envision which is why we always invest based upon what the market is actually doing rather than what we think it should do. It has been a good year and we hope your family is happy and healthy. We will be taking next week off from these pages but will be in the office should you need us. See you in 2020 and have a wonderful Christmas and holiday season and a blessed New Year!

The contents of the BAM Market Note should not be construed as advice to purchase or to retain any interest in any of the investments mentioned. Any references to returns are not indicative of future performance and are subject to adjustment or revision.