BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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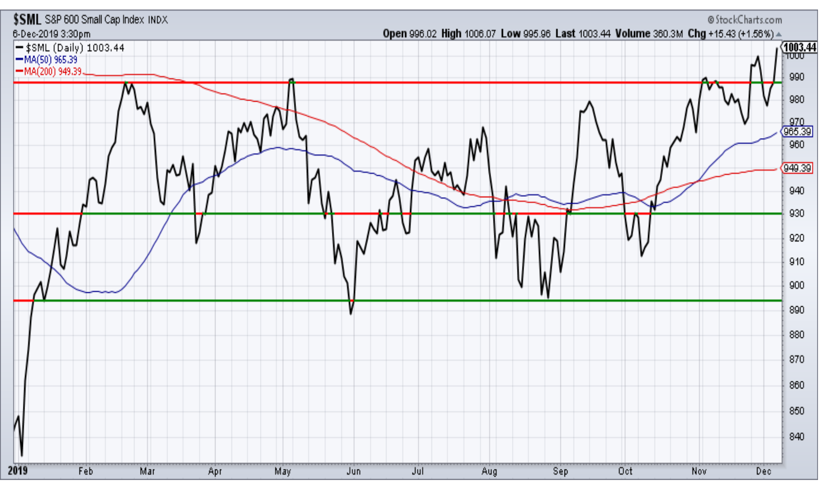
The market suffered a brief 3 day sell-off early this week. The damage was modest (2%) and served to work off the overbought condition of the market. As has become the norm, perceived negative news on the trade front was the assumed culprit for the market decline. Considering the run-up in November, the decline was neither unexpected nor out of the ordinary. As we stated in our last note, any sell-off should be taken as an opportunity to buy or upgrade existing holdings. It appears that the recent decline has run its course as the S&P has nearly recovered the losses it sustained and is only 6 points from its highs as of this writing. We may yet have another pull-back over the coming days but until proven otherwise weakness should be taken as an opportunity to add to or better your positions.



Small caps weakened with the rest of the market earlier this week but have already eclipsed their recent highs with rallies yesterday and today. The performance of small caps is very encouraging. The break-out from resistance last week and again this week (after the 3 day decline) bodes well for the rest of the market. Additionally, the relative strength of small caps to large caps has greatly improved and has recently turned up indicating investor's preference for this area of the market. December is traditionally a good time for the markets and even more so for small cap companies. Investors should consider some exposure to this area of the market as we make our way through the month.

Our Point

Trade worries resurfaced again to start the week resulting in a relatively sharp 3 day decline of 2% in the S&P 500. However, the market has quickly rebounded and is near where it was to start the week. In our opinion, the day to day volatility surrounding trade worries is largely noise. With an election coming up in less than a year, there is little chance that the White House will walk away from talks (creating a sustainable decline). Similarly, China has much to lose in a trade war. While it is likely that talks will continue to drag on leading up to and possibly after the election, some deal will eventually get done. If the US economy stumbles, the White House will be forced to make a deal of some kind to preserve the election bid of President Trump. While China does not have the same political constraints as the US, their economy is feeling the effects and there is mounting pressure. Should Trump win the election in 2020, China will have no alternative other than striking a deal. The trade talks are all about leverage and, currently, it can be argued who has the greater leverage. That equation will shift significantly with the 2020 elections. For this reason, we do not expect any resolution until the 2020 results are more definite. It has been a good investing strategy to buy weakness resulting from trade worries and that should continue for the foreseeable future. We have made a number of changes to our portfolios over the last two weeks. We have made purchases in retail, technology, small caps and financials while selling another bond holding. We are now fully invested and took the weakness from earlier this week to further refine our holdings. It looks to be a pretty weekend so get out and enjoy.