Bills Asset Management

BAM MARKET NOTE

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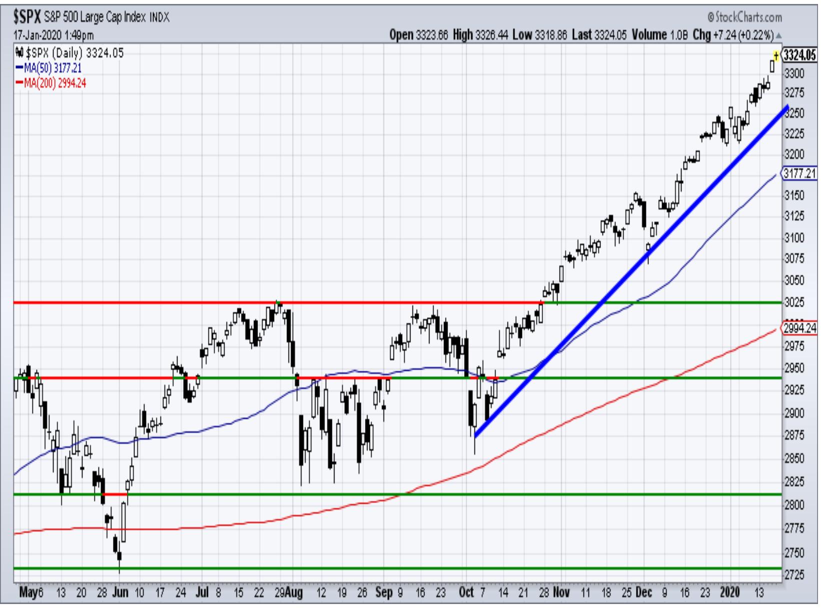

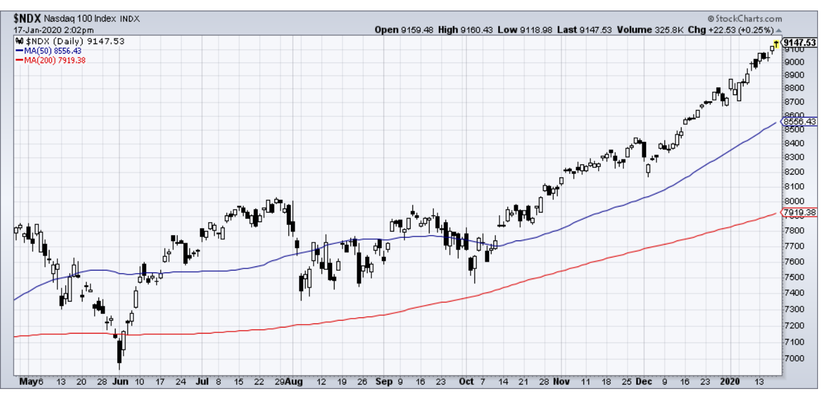

The bull market continued to rage upward this week as all of the major indices look to finish the week with solid gains. We mentioned the steep trendline last week and the likelihood of a correction sometime soon. However, the bulls have other ideas - for now. The S&P is continuing to stretch further away from the steep trend that began in October of last year. Note that the index can remain extended above the trendline for some period (see mid-October through the last week of November). That said, a reversion back to the trendline will invariably come as it did in early December and again in late December. Coming back to the trendline would only entail a 2% decline and would do nothing to alter the bull market. In fact, a small decline here would be healthy for market technicals. The trendline would need to hold support or a deeper decline would develop (5-10%). We'll be watching the trend over the coming week or two.

While the broad based S&P has done well this year, tech stocks (represented here by the Nasdaq 100) are clearly leading the market. The Nasdaq is up nearly twice as much as the S&P over the first 2 trading weeks of 2020. Leadership of technology is important as it indicates the willingness of investors to take on risk. Earnings from the large tech companies will begin to be released next week with a few influential names reporting. We'll get an early look at whether the optimism in the index is warranted.

Our Point

As is usual, banks are leading the earnings parade and their results have been relatively good. With financials making up approximately 15% of the S&P, their good earnings have definitely helped the broad index. Further fanning the bullish flames, there have been several positive US economic reports as well as encouraging economic news out of China. The China news was particularly welcome as it may serve to allay some of the world economic concerns. As noted above, the markets are extended to the upside. That is not to say that they cannot become more extended, but conditions are ripe for a pullback given a catalyst of some sort. Last Friday looked like the start of a correction as small caps were faltering and the other indices were showing some weakness. The bulls, however, had a different plan. As noted last week we took some profits and sold a portion of our small cap holdings (you never lose money taking a profit!). At the time, it was the right decision based upon our technical analysis. But small caps came to life again this week adding to an already positive market view. It's too early to say it was a bad decision to sell but one of the disadvantages of active/tactical asset management is a whipsaw trade where a position falls enough to generate a sell decision but then bounces back quickly. In our view, the advantages (principal protection) far outweigh the disadvantages of tactical management. At some point (when is anybody's guess), the markets will embark on a protracted down move. We will be ready as we were in 2000, 2008, and most recently in the last quarter of 2018. It is hard to believe that this long bull market will come to an end but it will … sometime. We made no changes in our portfolios this week and remain somewhere between 75 and 100% invested depending on the portfolio model. We will look to get fully invested again on the next pullback. Kansas City here we come. Carter and I will brave the balmy 22 degree temperatures to watch our Titans play this Sunday as we make the trek north. It will be cold but how cold will largely depend on the outcome of the game. Titan Up and have a great weekend.

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