BILLS ASSET MANAGEMENT

BAM MARKET NOTE

JANUARY 24, 2020

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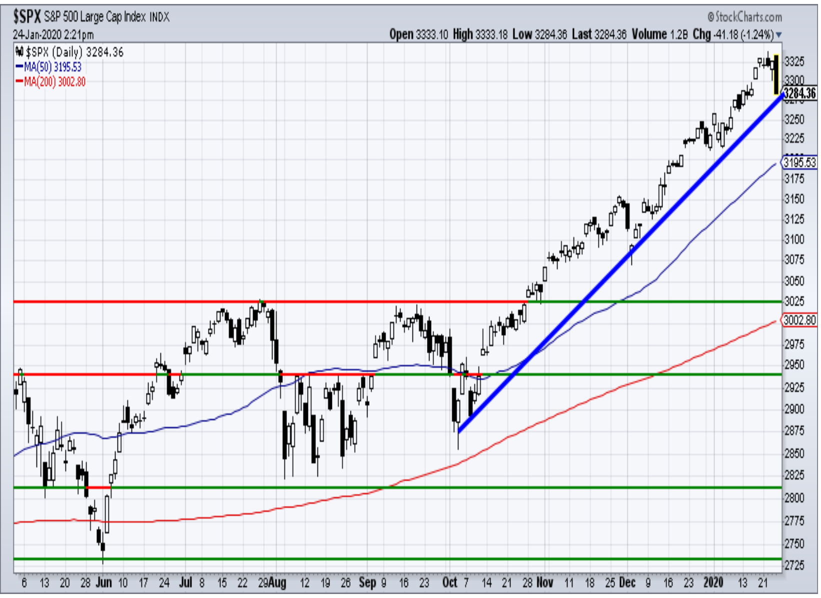

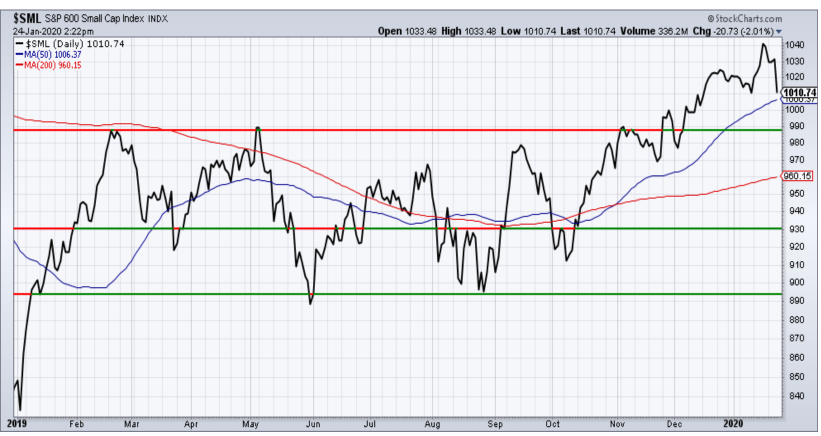

Over the last several weeks the markets have had plenty of opportunities to sell off on concerning news. Whether the ongoing impeachment, the tensions in the Middle East, or various other potential market moving news, the indices just kept grinding higher. This week's concern is the coronavirus. While it is getting the blame for the sell-off today, it is more likely an excuse for investors to take some profits. The likely effect of the virus on the US economy is minimal. However, with the markets extended on a short-term basis we may yet see more selling. As mentioned last week, the first logical area of support is at the rising trend-line. The markets are close to this area today. If the trend holds we will likely see higher prices in short order. However, a break of the trend-line could easily lead to a more painful 5-10% correction. In any event, sell-offs should continue to be used as an opportunity to add to or better your holdings.

As long time readers know, we pay a great deal of attention to small cap stocks. The relative underperformance of small caps over the last 18 months has been an ongoing concern. While (as evidenced over that period) stocks can go up (sometimes significantly) with small caps lagging, it is generally more difficult to make money in that environment and can be an early warning sign of trouble ahead. After a short period of relative strength in early December, small caps have again lagged and recently turned down again. They are leading the market to the downside today. We will have to watch and see if their increased weakness spells trouble for the rest of the market.

Our Point

Stocks took a breather this week as the S&P is down almost 1.5%. Much of that decline is happening today as fears of the coronavirus spreading has taken hold. The likelihood of a widespread pandemic is very low and the sell-off is likely more of an excuse for traders to take profits ahead of the weekend. With the market's impressive run over the last couple of months, a deeper correction would not be surprising. A pause and/or correction would be healthy for the market as long as it is contained in the 5-10% range. A correction of that magnitude would reset the market and provide an opportunity for those investors that entered the year defensively with an opportunity to invest in new positions. Technology continues to shine as the NASDAQ is the clear leader so far this year. Impressive earnings by IBM (earlier this week) and Intel this morning is buffering some of the weakness evident today. Earnings will continue to be a focus as the bulk of companies will report over the next few weeks. Next week could also bring a close to the ongoing impeachment process. While Wall Street has mostly yawned at the proceedings, the removal of any remaining uncertainty would be a relief to the markets. Earlier this week, we exited one of our holdings in retail as it began to weaken. The holding produced good gains but we believe better opportunities will become available on any additional market weakness. We will wait to see if the recent decline has run its course before looking to buy new positions. We will be spending the weekend and early next week scouring the market for areas that show promise. It is a sad time of the year as football came to an abrupt end last Sunday in Kansas City. Carter and I had a fantastic time and made several memories. Despite the loss, it is hard to be too disappointed as we never expected our Titan season to extend into January. We are mostly thawed out and are already looking forward to training camp. Enjoy your football free weekend wherever it finds you.