BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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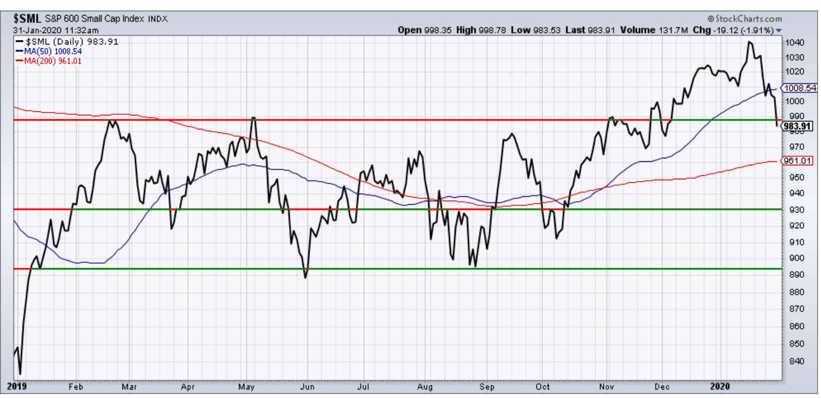
Trendline support was broken on the S&P with Monday's decline. Yesterday, a late day rally and reversal gave some hope to the bulls that the selling might be over. However, selling has resumed this morning in spite of blow out earnings by the likes of Amazon. Broken trendline support provides new resistance for the broad market index as you can see with the price action this week. We have added new levels of minor support to give us an idea on where we could be heading. The first support level coincides with the 50 day moving average and lies another 1.5% below current levels. The next level is at the 3150 level and would be a total of a 5% decline from the tops. With the big run up since early October, it would not be surprising (nor particularly concerning) to see the second support level visited. A deeper correction beyond that would get the market's (and our) increased attention.



The behavior of small caps would lead us to believe that the selling will continue in the near term. After breaking out from significant resistance back in November, small caps have now turned down decidedly and are in danger of breaching that support today. A break below this level would bode ill for the rest of the market and could lead to another bout of selling. Despite the rally in the markets over the last few months, small caps have been a thorn in the side of professional investors.

Our Point

The coronavirus officially has moved from epidemic to pandemic as the World Health Organization issued new warnings this week. While it has yet to be determined how much effect it will have on the US, it is definitely effecting the Chinese economy as the world cancels flights to and from China. We will have to see if the effect on the world economy is enough to create a serious market event but it is creating some unease in the US markets. As we stated last week, to this point, the outbreak has mostly been an excuse for investors to take some profits. We suspect the impact on the US economy will be minimal but it certainly bears watching. The impeachment trial looks to be wrapping up in the Senate with a likely acquittal of President Trump. Regardless of where you might stand politically, the ending of the current impeachment will be a positive for the market as it would be one less uncertainty for the market to worry about. There have been a number of stellar earnings reports this week as the likes of Amazon and Apple both reported blow out reports. Despite the gains by these two (and other) market stalwarts, the markets have drifted down. Had earnings been a disappointment, the selling would have been much more pronounced. There remain a number of other large profile names to report, so any earnings shortfalls would likely be punished and would have an outsized effect on an otherwise testy market. We made no changes to our portfolios this week. A large portion of our portfolios are only 50% invested while the rest are anywhere from 50-100% invested. In any event, all of our portfolios have weathered the current storm very well. If the current weakness persists we are likely to become even more defensive. We will enjoy having the cash available when a bottom comes – whenever that might be. The bull market still has more room to run but we may have to endure some periods of selling along the way. It looks to be a pretty weekend so get out and enjoy. We are still bummed about a Titanless Super Bowl but will enjoy it nonetheless.