Bills Asset Management

BAM MARKET NOTE

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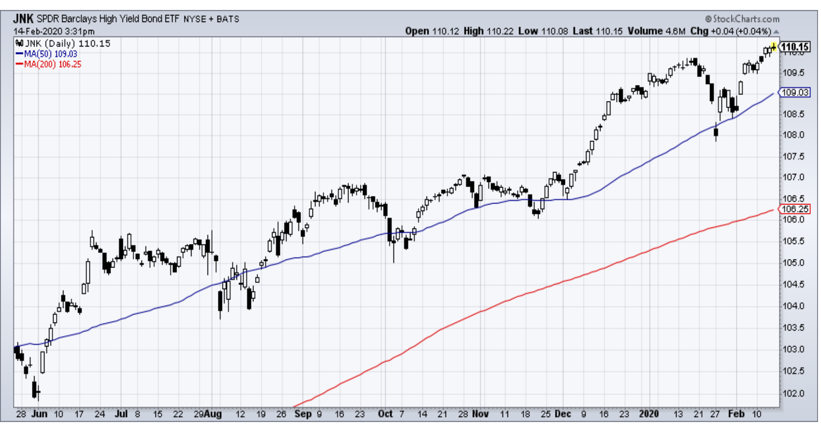
The market is continuing its impressive run. The S&P is up another 1.4% this week and is hugging the steep uptrend line that began in October of last year. The index continues to stretch the bounds above the 50 and 200 day moving averages. The spread is getting to the point where prior corrections have happened. That said, the market can remain extended to the upside for some period of time. Caution is warranted but there is no reason to get defensive at this point. Many calling for increased caution and even shorting (betting the market will fall) have been left behind over the last few months. A scary decline will come but it is anyone's guess when and what will trigger it. Paying attention and watching market clues will protect your portfolio from a life altering decline.



The strength of high yield further buttresses the argument that the US economy is in good shape. High yields are often the "canary in the coal mine" when it comes to spotting early bumps in the US economy. When high yield bonds turn down, investors would be well served to pay attention. Very generally speaking, the 50 day moving average is a good barometer of economic strength and stability. A break below the 50 day moving average would be an early warning sign of trouble ahead. We are currently well above that level though that can change quickly.

Our Point

The current market has been very resilient to say the least. Just in the last few weeks, it has weathered the continued Washington drama, military action with Iran – including new information that a war was much closer than many thought, and the continued coronavirus fears to name just a few of the major headlines. Through it all the markets have barely noticed – "suffering" only a 3% decline in late January that was quickly recovered. We continue to believe that a more substantial correction is coming in the near future but it is unlikely to change the nature of this bull market. The bull market will come to an end but it is much more likely to happen later this year or early next. In the meantime, investors should refrain from getting greedy while also continuing to participate in the market's continued strength. Large caps and technology continue to be the brightest spots in the market. International issues have struggled as fears of the coronavirus is more prevalent overseas. Additionally, strength in the US dollar is devaluing international markets. The US market has been the beneficiary as money flows to the US. Speaking of money flow, the Fed remains committed to its stealth QE (quantitative easing) as it continues to expand its balance sheet. As Warren Buffet once said, "Nothing sedates rationality like large doses of effortless money. Normally sensible people drift into behavior akin to that of Cinderella at the ball. They know that overstaying the festivities will eventually bring on pumpkins and mice. But they nevertheless hate to miss a single minute of what is one helluva party." When the liquidity dries up, we will see if the market is as strong as it now seems. We made no changes to our portfolios this week and will likely wait for a pullback before making any changes. It is a long weekend for the markets as they are closed for President's Day on Monday. For those husbands and boyfriends unaware, today is Valentines Day so you would be well served by making a stop for flowers or chocolates on your way home from work. Have a great weekend!