

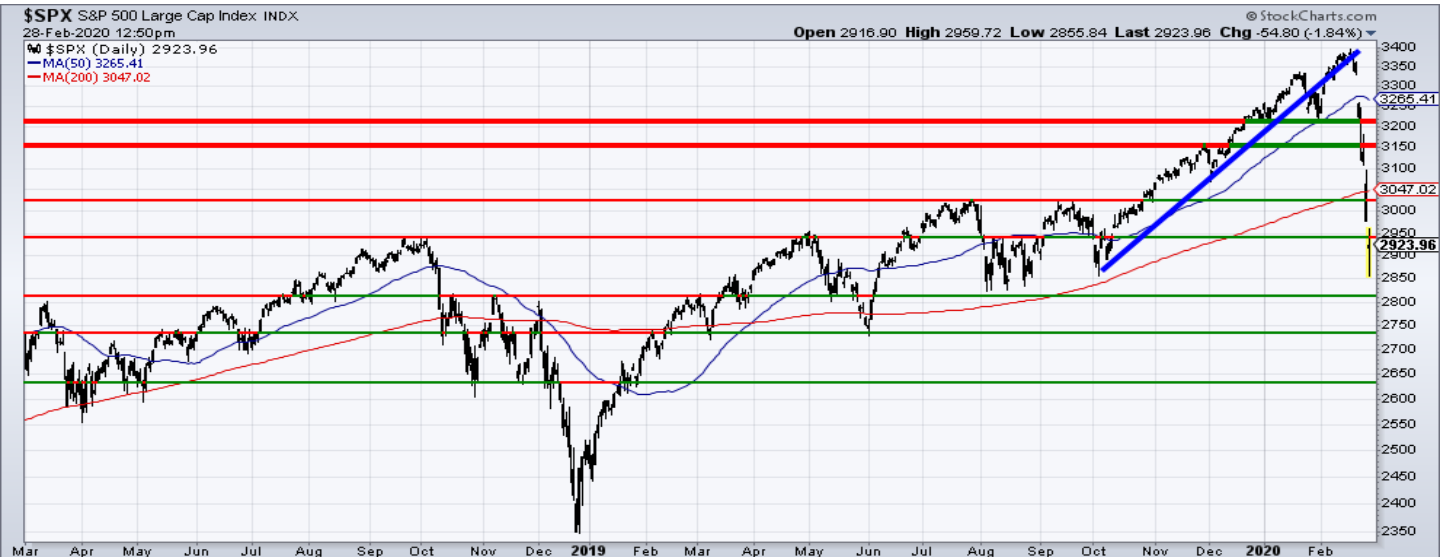
BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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Our Point

One of the many things I love about my job is the constantly changing landscape of the markets and the new challenges that those changes can bring. Obviously, it is always more fun when the markets are going up! This week has been a definite challenge. Readers of this missive know that we have been calling for and expecting a correction of some sort to happen. In that respect, the magnitude of the decline (to this point) is not surprising. What is surprising is the veracity and violence of the decline. We never would have expected the full depth of a correction to take hold over the course of a week! It seems unprecedented but we faced similar declines in the throes of 2008. There are a few differences in the current environment. The economy is much stronger today than it was in 2008 and the chaos in the financial system (present in 2008) is not present today. That said, there remains many reasons for continued weakness. The coronavirus has been the catalyst for the decline but it is hardly the only reason for the decline. The markets roared for most of last year and the first part of this year. They were over-extended to the upside. A mean reverting decline was becoming increasingly likely. We began taking some profits a few weeks ago though we wish we had taken more! Though there were signs of impending weakness, nobody foresaw what has transpired this week. We took advantage of the mid week "strength" to sell a few positions to get even more defensive. Support levels in a headline and emotionally driven freefall like we have seen have little impact as sellers far outnumber buyers and rational thinking has gone out the window. The sky is not falling and the world, as we know it, is not coming to an end. Granted, there are uncertainties surrounding the health and economic impact of the coronavirus. But this too shall pass. We successfully navigated 2008 and we will successfully navigate this current weakness. Is the bull market over? Are we moving into a new bear market? When will the selling end? These are all unknowable questions but we do have some thoughts. The bull market continues, for now, though there has been significant damage to the market. We believe that the current weakness is a shot over the bow and does foretell the next bear market. The market will likely stabilize soon and mount an impressive rally over a few days. While it will be tempting to get excited, the damage to the technical underpinnings of the market have been significant. It will likely take weeks before things "return to normal." While we have had a number of "V" bottoms over the last several years, history shows us that a bottom that develops over time with ups and downs and retests of the lows is much more likely – a "W" bottom. We suspect that we are close to a bottom and that we should rally next week. The strength of the rally and whether or not we can hold onto the eventual lows will tell us much about where we might be heading next. While we aren't convinced that the bull market is over, we are convinced that a bear market is coming. Whether that is next week, next month or next year is anybody's guess and we won't venture it here. Instead we will hold to our investing principles and strive to limit losses in times like this. Our portfolios have not escaped the carnage unscathed. That said, our increased cash holdings and our defensive positions limited the losses to anywhere from 40 to 60% of the losses of the market. To this point, the losses (though unpleasant) are manageable and have only given back the gains of the last 2-3 months. The market takes an escalator up and an elevator down comes to mind. Life altering bear market declines (30-60%) are difficult to overcome and we will seek to protect your portfolios from them as we did in 2000 and again in 2008. The current decline, though scary, is not unusual in its magnitude. If a bottom develops soon then the losses will be manageable and recoverable. If a bear market ensues we will retreat to the safety of cash or treasuries. We will continue to trim positions on any bounces until the volatility subsides. Thank you for your trust. The sun will be out this weekend and next week will be a new one filled with new challenges and opportunities. Keep your hands washed and enjoy some time with your family.

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