BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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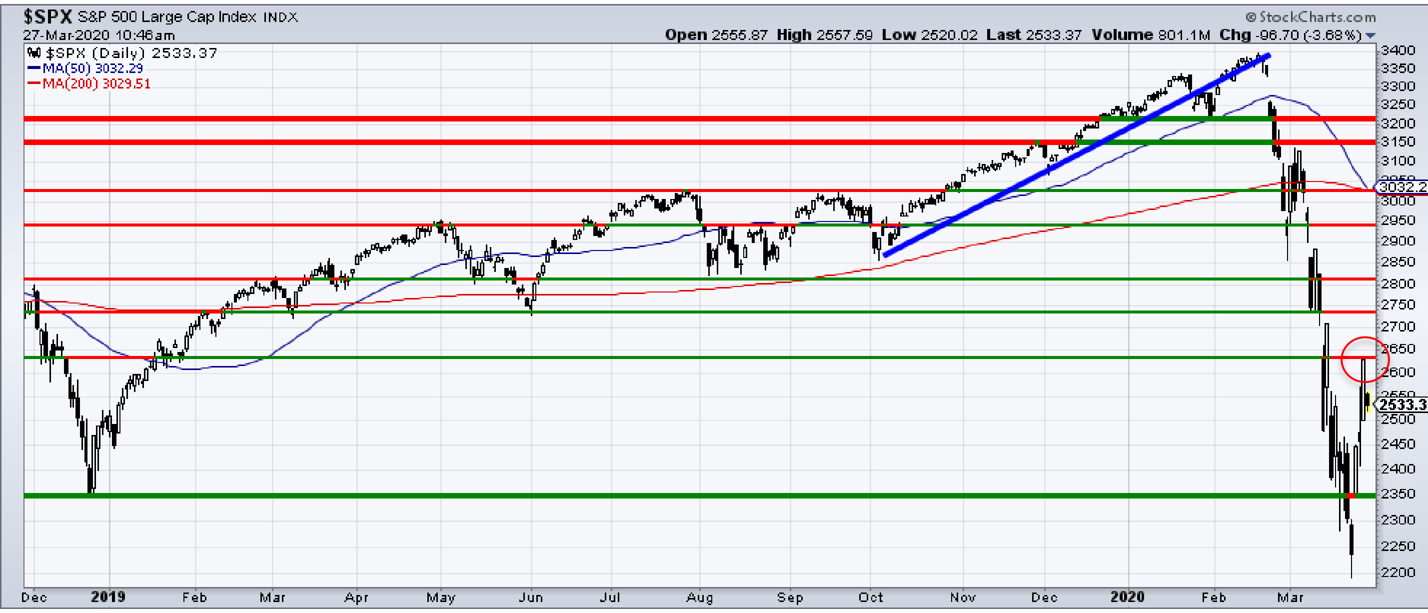

Our Point

In this unprecedented time, we continue to hope that all of our readers remain safe, healthy and well. It is truly surreal as streets are empty and stores shuttered. The stock market continues on, however, and is the antithesis of the quiet so many of us are enduring. As we have mentioned here a number of times over the last few weeks, strong counter trend rallies were expected. We have had one such rally this week and it has been enormous with the S&P up over 17% in just the last 3 days! With today's pullback, it looks like the widely followed index will end the week up around 10%. The S&P remains down close to 25% from its highs. The Value Line Index (discussed last week) remains down around 35%. The math of losses (it takes a 100% gain to recover from a 50% loss), comes into effect with the broad losses that we have seen. For example, despite gaining 17% in 3 days, the S&P only recovered 12% of the losses incurred. If the bottom is in (that is a big IF), then the S&P will need to gain just over 50% just to get back where it was. While support/resistance levels, trends, and other technical analysis tools hold little weight in an emotionally charged market, we are beginning to see signs that more order is entering the market. As you can see, the resistance level around 2650 (marked by the red circle) on the above chart proved a stopping point for the market yesterday. Note – this chart has been used for the last several months with no alterations in the support and resistance levels. Some green shoots are beginning to appear as some of the initial fear subsides. The obvious questions at this point are 1) whether or not the recent rally marks the end of the selling, 2) whether or not the bottom around 2200 is the final bottom, and 3) will the markets revisit the lows before embarking on a real recovery. Market bottoms are often a process over several weeks/months. While just about anything is possible in a charged environment, history strongly suggests that the recent rally was not the end of the bear market that began a few weeks ago but rather an oversold rally in the midst of a bear market and a necessary piece of what looks to be a protracted recovery of a damaged market. History would also suggest that a retest of the lows is likely and that a lower low is entirely possible. In the short-term, market movements depend on the unknowable. Will a vaccine be quickly developed, will the situation in New York City spread to other cities generating increasing fear, will social distancing and closures last for much longer than expected? Nobody knows the answers to these questions and, for this reason, the markets will remain volatile until clarity is provided on these and other questions. Even after the virus dissipates, many questions will remain as to the depth of the harm done to both the US and global economies. This is not a market to play in. Each individual investor is different but, for our clients, we have chosen principal preservation in these uncertain times. In fact, in the midst of the 3 day rally, we took the opportunity yesterday to liquidate positions of our new clients that have moved the management of their assets to us over the last week. If you have questions about your investments or would like to get our thoughts on your portfolio, please give us a call. We made no changes to our portfolios this week and remain mostly in cash and fully hedged to market losses. Opportunities are born out of times such as these. If you have extra cash you should be prepared to capitalize on the recovery when it comes (and it will come!). Be patient and be vigilant. If you are anything like us, you have exhausted much of your tv shows and movies. I am also mostly through re-watching the 2019 Titans games. With another weekend of social distancing and rain in the forecast, I plan to wrap up the season and, perhaps, get started on 2018! We hope you enjoy your weekend also. Stay healthy, stay sane and find creative ways to stay in touch with friends and family.