

BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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Our Point

We continue to hope that each of you and your families remain healthy and well in these crazy and unsettling times. After last week's counter-trend rally, the markets churned lower this week. When a down week of "only" 3% elicits a sigh of relief, one can truly begin to appreciate the extreme volatility we have experienced over the last month. The S&P rallied up to the prior support (now resistance) at the 2600 levels. The index now is bouncing around the wide trading range area marked by 2600 on the upside and 2300 on the downside. It is no coincidence that support and resistance hover around round numbers as investor psychology places some importance on round numbers. The market tried to shrug off the unemployment claims number yesterday and the horrific jobs report this morning, however, the market is deepening its sell-off as I write this. Unfortunately, these numbers are going to get much worse over the coming weeks as the brunt of the economic shut down will continue to cause lost jobs and companies to shutter their businesses – some, unfortunately, for good. The stock market is forward looking and some bad news is already priced in. The question becomes whether the news continues to be worse than expected. We hope that it won't be, but expect that it could easily be much worse. Remember hope is not an investment strategy. Investors would be wise to continue using rallies to pare the market risk in their portfolios to their level of comfort. As we mentioned over the last couple of weeks, it would be highly unusual for the markets to snap back (V Bottom). Rather, it is much more likely for the market to revisit the lows (at best) and possibly take an even deeper dive. We updated the S&P chart that we have shared over the last several weeks to include some new downside targets. A retest of the recent lows, would entail a decline of 7% from current levels – we think this likely over the next week or two. If that level is breached, then the next area of major support would be the 1800 level – some 27% below current levels. We are not calling for that at this point, but it is certainly not out of the question. If the country-wide shutdown ends up being 3-4 months rather than 1 or 2, then we are likely to hit these lower levels. There is no easy fix for the market and economic issues. Even if the virus was cured tomorrow, the damage to the economy and the markets will take time to restore. Lest we be accused of being a pessimist, we continue to believe that a generational buying opportunity is on the horizon. The US economy WILL come roaring back and for those that have preserved capital in these unusual and tragic times, the opportunities will be enormous. However, we aren't there yet and investors would be well served to be patient, cautious, and prudent. The markets will reach a bottom well before the end of this crisis but not before some of the current uncertainties are settled. We continue to look for areas of the market that will likely lead the recovery and are making lists of sectors and areas of the market that have piqued our interest. If you have extra cash on the sidelines, now would be a good time to put it in your investment accounts to be ready when the recovery starts. We made no changes to our portfolios this week and remain predominantly in cash and market neutral. Any further decline should have no material effect on our client portfolios and would only serve to present a better buying opportunity when the recovery begins. If you are a non-client reader that would like to discuss your current investments, we remain available via phone and/or facetime. Doing nothing in an environment such as this does not constitute a successful investment strategy. It looks to be another beautiful weekend, so I plan to take a walk or four, do some yard work and continue to fix a few things around the house. These are troubling times but in the midst of it all, we hope you can focus on the ones you love, share a smile or two with your neighbors, and thank those that continue to work to keep us safe. Have a great weekend.

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