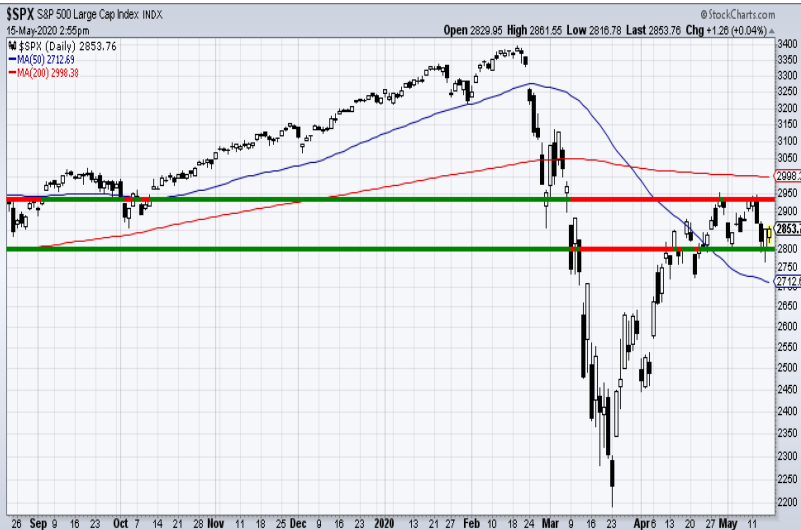


BILLS ASSET MANAGEMENT
BAM MARKET NOTE
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SAM BILLS (865) 525-1329
BO BILLS (615) 371-5928



After reaching the top of the recent trading range, the bulls were rebuffed and the bears took hold. The S&P looks to finish the week down near the bottom of the range. Since the end of April, the index has now touched the upper end of the range 5 times. The lower end has also been touched 5 times over the same period. Yesterday, the lower bounds were pierced intraday but a late day rally pushed the index back into the range. It is a battle between the bullish and bearish camps. We suspect we will see some resolution soon and a breakout one way or the other. Considering all the factors, we continue to believe that a downside resolution is more likely. However, a successful investor should not guess which way the market is heading but, rather, should respond to what it is actually doing. That is sometimes harder to do than it seems! In any event, watch the current range and respond accordingly.

The VIX index is a measure of implied volatility in the market. It is widely interpreted as an indication of the amount of fear currently in the market. When the VIX is elevated, as it is now, then there is increased likelihood of a strong move down. Inversely, when the VIX is subdued (in the teens) then investor fear is low and the markets are deemed to be stable. As you can see, at the height of the pandemic fears, the VIX reached levels not seen since 2008. The index remains at levels not often seen over the last 10 years. Despite the sideways movement of the markets, there remains a great deal of fear and trepidation in the markets. While lessened, the chance for a significant downside move continues to be elevated.

Our Point

A slew of bad economic news overshadowed a relatively quiet week on the virus front as the major indices all fell this week. For the week, the S&P is down over 2.5% with an hour to go before the close. To compound matters, there is increasing rhetoric between the US and China. The US is not alone in feeling some outrage towards China as several European countries have also expressed their dismay at China's handling of the coronavirus. The rhetoric is not likely to go away anytime soon and will add another uncertainty to the ongoing list. The reopening of economies have gone well to this point but we are still too early to know with any certainty whether or not a second wave will present itself. Similarly, we won't know for several weeks how quickly consumers will feel comfortable getting out and about.. After the surge off of the panic selling bottom in late March, the S&P has gone nowhere over the last month. On April 17th, the S&P was trading at 2875 and is currently trading at 2855. It is very encouraging that the market has been able to hold onto its gains. The increased stability of the market, decreases the chances for a quick retest of the March lows though a protracted downward move towards those lows remains a distinct possibility. However, in spite of the relative calm over the last month, the continued elevated VIX is a stark reminder that fear remains. Negative news on the virus or reopening front would be met with renewed selling. Until the market moves out of the current trading range, investors should bide their time. A buying list should be ready if we break to the upside and stops should be set at levels just below the lower end of the range. It remains a dangerous market. We made no changes to our portfolios this week. Our low volatility defensive positioning has done well in the sideways market and we are up ¾% to 1 ¼% for the month to date (the S&P is down 2%). If the market breaks down, our current portfolios should continue to do well. If we break to the upside, we will begin to get a little more aggressive on the long side of the market. As parts of town begin to reopen it will be interesting to see how crowded things get. As for us, we will be easing into things and won't likely be eating out just yet. It should be pretty so we will be eating outside instead. Happy weekend wherever that finds you.

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