BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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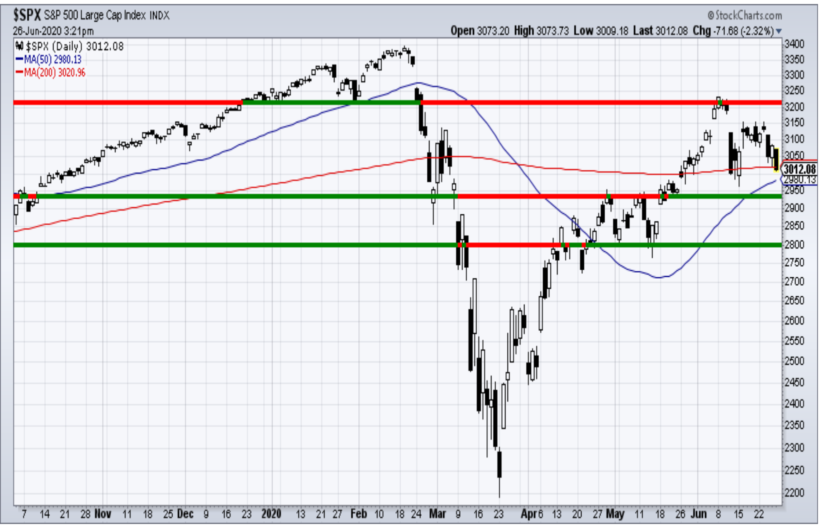
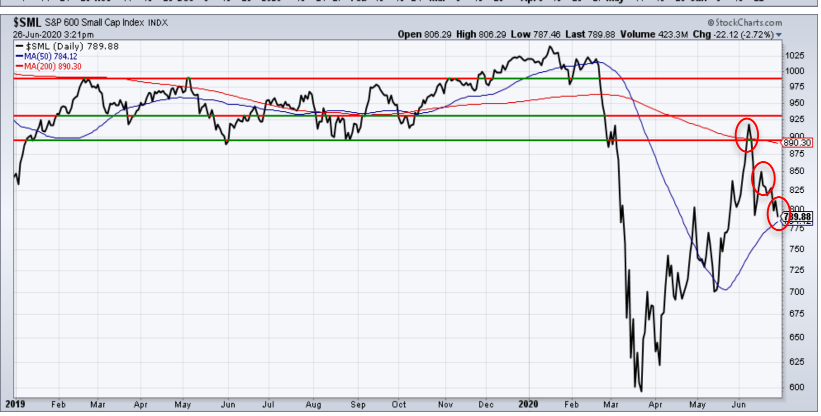


After a rousing start to June, the markets have turned south. From June 1st to 8th the S&P was up over 6%. Since then, however, the index is down 6.6% as of this writing. With just 2 more trading days in the quarter, we will have to see if the markets can maintain its streak of up months. Today the S&P is testing the 200 day moving average – a very important test. A break below this important support level would pave the way for a test of the bottom of the range in the 2950 area. The bulls need to hold their ground there or we will likely head back down to the 2800 area – some 7% down from current levels and 13% from where the market was just 3 weeks ago. We believe it is quite possible that these levels will be reached over the coming weeks. Extreme caution is advised in this increasingly volatile market.



Trends are defined by higher highs and higher lows and lower highs and lower lows. Currently, small cap stocks are flashing red as we have a developing downtrend. After reaching a high on June 8th, small caps have declined steadily shedding nearly 15% over that time period. The small cap index has also developed a series of lower highs and lower lows marked by the red circles. It should also be noted that high yield bonds have similarly weakened piercing their 200 day moving average and challenging their 50 day moving average. Neither of these (and certainly not both combined) bode well for the health of the market.

Our Point

Despite the recent weakness, it has been a remarkable quarter. All of the major indices are up significantly for the quarter with the Nasdaq even reaching new all time highs. It was much needed after the bloodbath in February and March. However, even with the outsized gains for the quarter, the S&P remains down almost 7% for the year. Small caps (Russell 2000) are down almost 18% over that same period. Finally, the Value Line Index (perhaps the best measure of the overall market) is down close to 15%. The S&P is being buoyed by its tech components (Facebook, Alphabet, Microsoft, Apple, Netflix, and Amazon) which have had significant gains for the year. The weakness over the last few weeks can be attributed to the rise in coronavirus cases and the threat of slowing down the pace of recovery. As we have written here for the last several weeks, the pace of the recovery in the markets were at odds with the pace of recovery in the economy. Perhaps the market is beginning to factor in something less than an uninterrupted recovery. While there is risk to the downside from current levels, we do not believe that a retest of the March lows is likely. As mentioned above, however, we do believe that another 5-10% downside from here is entirely possible. Investors should continue to pare risk to their levels of comfort. Support levels should be monitored as buying opportunities should they hold. With the VIX (shown last week) at historically inflated levels, market risk is high and becoming increasingly elevated. Caution is warranted. We have made no changes to our holdings this week and remain invested in a combination of bond and income funds with little equity exposure. The positions have done exceptionally well. With 2 days left in the month, our portfolios are up over 3% for the month, while the S&P looks to finish in the red. However, in this volatile environment, the last 2 days of the month could produce gains or losses in excess of 5% so we will have to see where the markets finish the month! Regardless, our portfolios have weathered the down days well and have only had 3 down days over the last 2 months. With the markets closed next Friday for the July 4th holiday, we will be taking a week off from this note. As always, if market conditions warrant, we will publish an interim note. We'll see you back here in two weeks and hope you enjoy the official start of summer in this continually strange and unusual year. Have a great weekend and a Happy early July 4th. Despite all the issues, the US remains the freest and best country in the world. Let's celebrate that while recognizing the improvements that need to be made.