**BILLS ASSET MANAGEMENT**

# BAM MARKET NOTE

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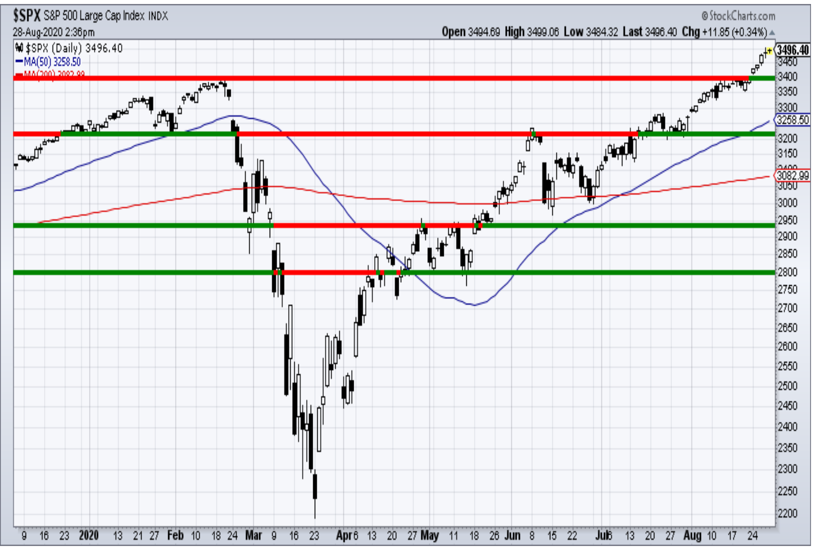



Forget the resistance at 3400, the bulls have their sights set on 3500! After a very brief pause at the February highs and 3400, the S&P surged again this week and now are taking aim at 3500. It has been an enormous rally and there is a lot of momentum behind this move. Those that were bearish are continuing to be eaten alive and forced to cover their shorts. The combination of the Fed, bears, momentum, and FOMO (Fear of Missing Out) investors continue to push the market higher and higher. The market is very stretched to the upside and overbought. It can stay that way for some time, but the increased gains make the risk of a quick pullback greater and greater. Think of it like a rubber band being stretched and you get the picture. With the market 12% above the 200-day moving average, risk is becoming highly elevated.

We mentioned the Advance/Decline line last week and it improved some this week. There remains a divergence, however. More interestingly this week is the VIX. The VIX is a measure of fear in the market. As you can see, the VIX has steadily declined over the last few weeks. It often moves opposite of the market. Fear subsides as the market rises and increases when the market falls. This week, however, the VIX started moving up in the midst of the market's strong move upward. It is only a few days, but it is unusual for the VIX to turn up when the markets are making new highs. Smart traders are becoming more fearful even as the markets move up. Another interesting divergence that may bode ill in the short term. A swift and significant pullback from these levels would not be surprising.

## Our Point

Nothing much seems to faze this market. It seems like it can only go up. That is a dangerous thought pattern to engage in as we all know the market can and will punish those investors that invest too casually. With a rising VIX, a narrowing market breadth, and an overbought market, it would only take a catalyst to start a quick down move. What will set the market off is anyone's guess, but market conditions are susceptible for a quick move down. Sell stops should be tightened and caution should be taken. With the conventions now passed, election season begins in earnest. While the top ticket is important to the markets, the control of Congress will have equal or greater import. Regardless of whether it is Trump or Biden, the markets do better with a divided government. Any one party that controls all of government usually makes a mess of things! While the House is likely to remain Democratic, the Senate is what the markets are watching. If Republicans can maintain their control, then the presidential election becomes less important to the market. Considering how poorly polling did in 2016, the market could become even more volatile leading into the election. We made no changes in our portfolio and continue to generate excellent risk-adjusted returns. Any correction that holds above support would be an opportunity to re-evaluate our portfolio and consider new positions. It's hard to believe that we are almost through August in this highly unusual year. Where did the summer go? We will enjoy a low-key weekend around the house and hope you have a relaxing weekend too.