BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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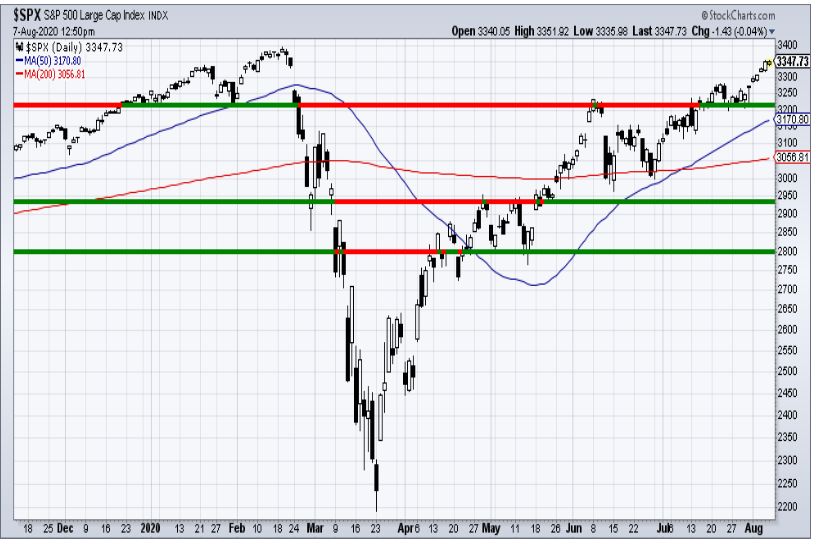

The markets continue to astound. Despite numerous data points and bad news, the S&P continues to defy logic and to move higher. The widely followed index now stands just a little over 1% from its pre-pandemic highs. I honestly thought there was little to no chance we would return to these levels this year, but the market has other ideas. We will hit the highs sooner rather than later. What we do from there will be the big question. The high-water mark of the highs will be a significant test for the bulls to push through. However, with the market in crazy town, anything is possible. Despite talk of the Fed's ammunition being less and less effective, the current rally proves that wrong as Fed liquidity and Congressional stimuli are driving this market higher.

One point of caution (among many) is the narrowness of the rally. The largest of the large cap stocks (Apple, Amazon, Netflix, Microsoft, Google, Facebook, etc.) are driving the indices higher. To illustrate the point, the cap-weighted S&P index (above) that we all follow is up 3.6% for the year. In stark contrast, the equal weight S&P index (shown to the left) remains firmly down year-to-date (-5%). In effect, the largest of the large companies are performing wonderfully while the rest of the S&P 500 is trailing far behind. When the markets are being driven by a few names, it increases the risk of a sharp sell-off should any of the big names falter.

Our Point

Nothing seems to faze the current market. Bad news is taken in stride and "good" news is celebrated with trumpets and parades. Today's job report is a case in point. Unemployment remains at elevated levels with no quick fix for the economy on the horizon. In a vacuum, job gains were impressive at 1.8 million. The July numbers followed job gains of 2.7 and 4.8 million jobs added in May and June. While those are extraordinary job gains, they follow job losses of 22 million in March and April. To this point, the State reopenings have added back fewer than half of the jobs lost earlier this year. Increased China tensions and rhetoric are likewise being ignored. Momentum is a funny thing. Newton's first law of motion states that "every object persists in its state of rest or uniform motion in a straight line unless it is compelled to change that state by forces impressed on it." Currently, in the eyes of most investors, the forces of the Fed and other government stimulus are far outweighing any negative forces. There is also at play a herd mentality and the Fear of Missing Out (FOMO). When the herd shifts (and it will at some point), the results could be accentuated due to the overstretched gains of the last 4 plus months. When that happens is anyone's guess, but we get closer to it with each up day. The late February highs of the S&P will mark another milestone and another big test for the bulls to overcome. Regardless of the daily drumbeat of market gains, risk is elevated and is growing with each successive up day. We made no changes in our portfolio this week and all were positive for July and the year-to-date. Our slow and steady mix of low volatility funds and ETF's have performed admirably with our conservative portfolio up 6% year-to-date. Despite what we think the market should be doing, we will continue to invest on what it is actually doing. When the markets change, we will adjust our portfolios accordingly. The market is stretched to the upside but could become more stretched. Be careful as risk remains elevated. Have a great weekend and do something fun and out of the ordinary.