# BILLS ASSET MANAGEMENT

## BAM MARKET NOTE

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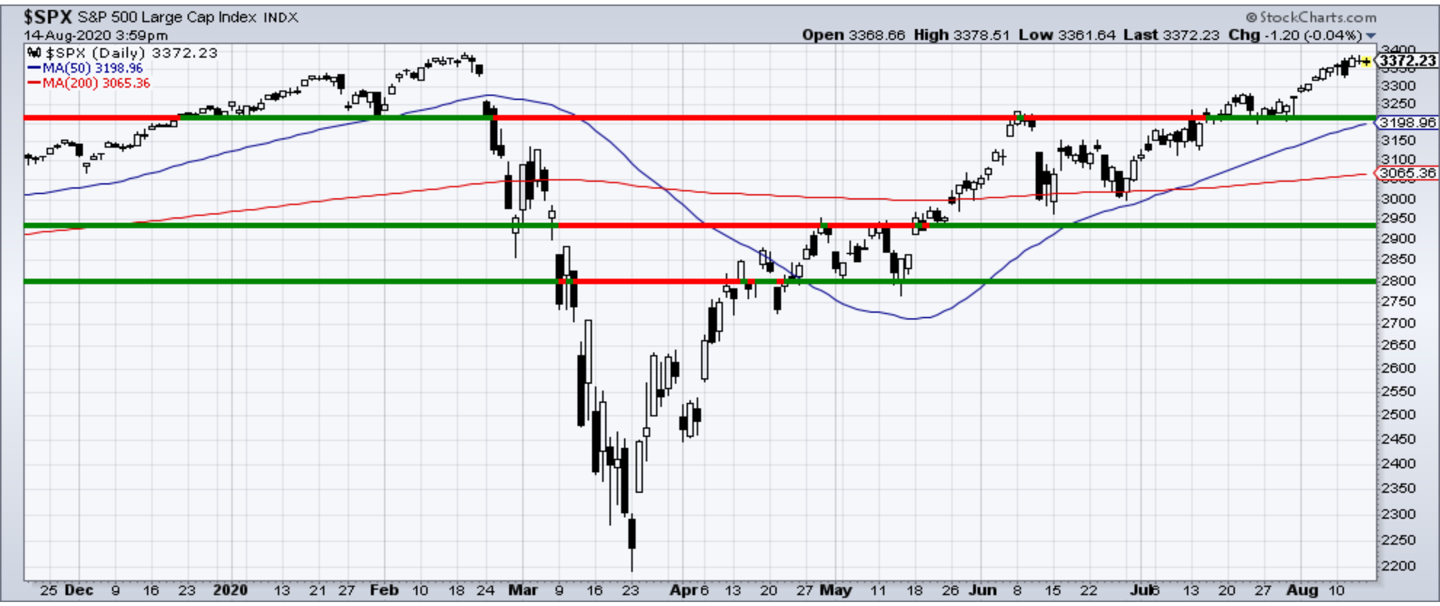


## Our Point

The beat goes on. To look at the markets, an outsider would think nothing has changed from late February to today. With the major indices at or above pre-pandemic levels it would seem that we are living in the same economic world as we were in February. Obviously, that is far from reality. Thousands of businesses are closed, many permanently. Unemployment over 10 million. College football on the brink of cancellation! It really is a different world. After a stellar July, the markets have not missed a beat. The S&P now sits a whisker below its pre-pandemic high. As we mentioned last week, this high will be attained and will likely be eclipsed. Whether or not it holds will be the next big test for the bulls. The psychological effect of attaining these levels should not be discounted. A lot of energy and euphoria have been spent getting to these lofty levels. With the market extended to the upside and continuing to get more extended, the risk of a quick and sharp reversal continues to rise. From an economic standpoint, there is simply no reason why the markets are trading at these levels. However, the market is not the economy; or at least the economy we have today. It is usually, however, a view of where the economy will be weeks and months into the future. Make no mistake, the current rally is not based upon the current economy or even the prospect of the economy 6 to 12 months down the road. If it were, we would be trading at levels hundreds of S&P points below current levels. Rather, the current rally is all about liquidity. The liquidity provided by the Federal Reserve and the liquidity provided by Congress (with more likely on the way). It is a dangerous game the Fed and Congress are playing. Debt levels of the US are at historic levels – far exceeding those of a war time economy. The piper will be paid … eventually. Not yet though. In the meantime, a pause or pullback in the markets is overdue. Current levels provide a logical place for that to begin. A pullback to 3200 on the S&P (5-6%) would do little to the current trend but would reset the markets and would be healthy. From a technical view, that is what "should" happen, but this market has made a habit of ignoring any outside forces. That will eventually change but for now we are riding the trend. Economic data is improving but has a long way to go before being considered good. A resurgence in the virus this fall and/or another round of closures or cancellations would rattle the markets again – especially from these lofty levels. Despite the daily climb higher, risk continues to be elevated and the prospects for a scary decline become more likely. We made one small change in our portfolios as we sold our treasury bond holding and reallocated the proceeds to better performing investments. We are continually evaluating our portfolios and will make changes as market conditions warrant. Our holding in gold lost a little luster this week as it corrected after a terrific run up. We continue to like the prospects for gold and may add a little more to our holdings on further weakness. Stay nimble and stay alert. We have had much excitement over the last few weeks as we have/had 2 big oaks adjoining our property and our neighbors. We were awakened 3 weeks ago when one of them decided it was time to fall after living close to 250 years (according to the arborist). Fortunately, the damage was minimal – a totaled truck next door and minor damage to the house across the street. With a diseased root in the fallen tree, we were advised to take the remaining 280-year-old oak out. Two tree companies (the first one bailed 25% of the way done) and two planned power outages later, the trees are gone, and we are sleeping a littler sounder. Kelly is a tree lover so it was sad, but we will be making a couple of benches out of it! Enjoy your weekend and we hope you are also sleeping soundly.