Bills Asset Management

BAM MARKET NOTE

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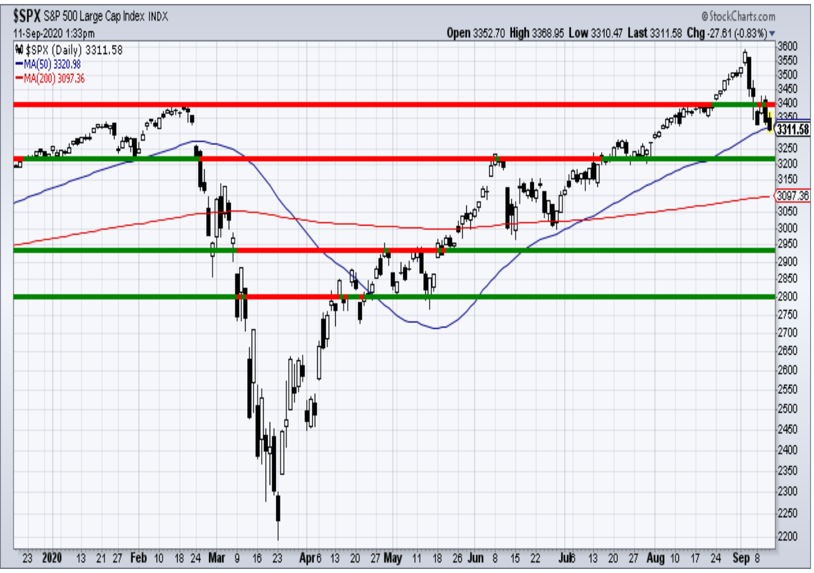

Last week's weakness continued this week with the S&P falling another 3.5%. The correction now stands at 7.5% over the last 6 trading days. The tech laden Nasdaq has fared worse – shedding 11% over those same 6 days. The support at 3400 held for a couple of trading sessions but has now been broken. The bottom of the trading range at 3200-3250 is now the target. We are very likely to test these levels over the coming days. Movement between the bottom of the range (3200-3250) and the top of the range (3400) should be ignored. The next big move in the market will be determined by whether support holds at approximately 3200. If it does, then a tradeable position could be taken. If it doesn't then the next level of support comes into play. That level is a much more significant decline. We have been preaching caution for several weeks and that sermon continues today.

Semi-conductors are often a leading indicator of market conditions. SMH peaked with the market on September 2nd and has fallen precipitously since then. It has now broken through its 50-day moving average which would indicate more weakness ahead. It is the first time SMH has pierced this important moving average since April. The weakness should be respected and is, yet another, reason for increased caution and vigilance.

Our Point

The markets have become increasingly weak over the last 2 weeks. The Nasdaq has officially entered correction territory with a loss of greater than 10%. The S&P is not far behind. Support at the 3200-3250 area would take the S&P down 10% from its peak and would be a logical stopping place. If support fails at this level, then a much broader and significant correction would become much more likely. Wall Street was expecting another round of Congressional fiscal stimulus. The continued quagmire is one reason why the market is currently selling off. With the election drawing near, battle lines are drawn and the prospect of getting anything done before November becomes less likely with each passing day. With the election rhetoric and uncertainty increasing, it is not a time to get aggressive on the long side. However, if support holds, then aggressive investors may want to increase their positions. In the interim, investors should adjust their portfolios to their levels of risk tolerance and tighten stops on equity positions. We made no changes to our portfolios this week as our low-volatility portfolio continues to hold up well. For the month, our portfolios are down modestly - .04%-.9% - and much less than the overall markets. We will likely make changes depending on the market performance at the support levels discussed. Should the S&P hold support in the 3200 area, we would likely add to our equity positions and get a bit more aggressive. However, a failure at that support, would likely lead to us lightening up on a few of our positions. Until then, we wait and evaluate each holding based upon what it is doing. On this day 19 years ago, I was at the gym working out before work when I saw the first plane hit the World Trade Center – Kelly and I had just visited New York a few months earlier and stood on top of that building looking out at the Statue of Liberty. It was a surreal feeling. I rushed home to watch the news coverage arriving just as the second plane collided. Kelly and I spent the day glued to the TV, watching in horror and sadness. I am sure each of you can remember where you were just as vividly. It's hard to believe 19 years has passed. One of the things I'll never forget is the unity and compassion shared by so many in the days and months afterward. We were all Americans despite our race, creed, religion, politics, etc. In this time of division within our country, I hope we can rally together again – much as we did some 19 years ago. Sorry to get preachy. Have a good weekend.