BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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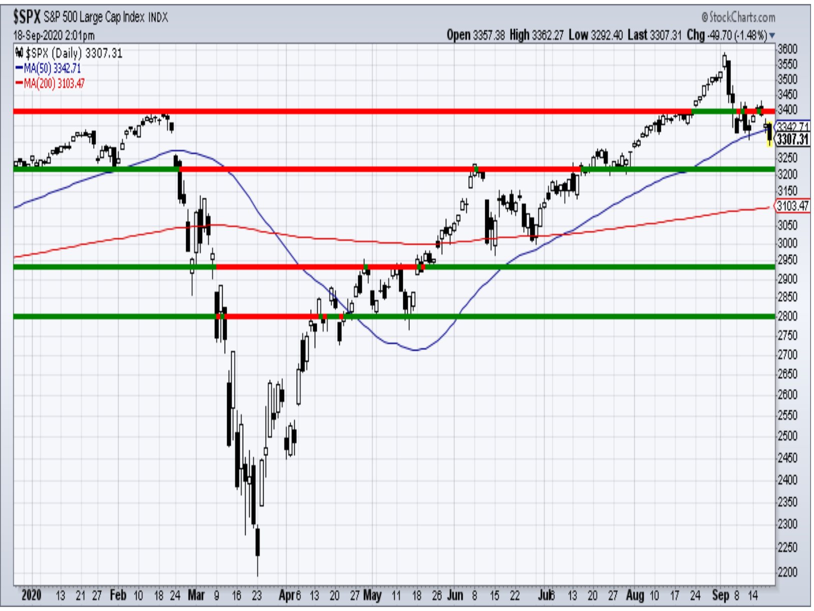

The S&P looked to be bouncing off of the 3400 levels on Wednesday. However, initial enthusiasm for Chairman Powell's testimony and the Fed's interest rate policy meeting turned south at the close and the markets have trended down since. For the week, the S&P looks to log another down day with weekly losses at 1% at the time of this writing. There was some reason for optimism on Wednesday, but the bears have again taken control as the markets are firmly back in the long-term trading range. This morning the large cap index fell below the 50-day trading range. It did this last Friday as well but managed a late afternoon rally to close above this important line. Do the bulls have another late-day rally in store? Closing above the 50-day moving average could provide some much-needed momentum heading into next week. Caution remains a high priority in the current environment.

Technology stocks have led this market higher and they are now leading the market lower. The NASDAQ 100 is down nearly twice as much as the S&P since the peak on September 2nd. The index fell below the 50-day moving average yesterday and is extending its losses today. Additionally, support has been broken so further downside is likely. It will be difficult, at best, for the market to rebound without the leadership (or at least the stabilization) of these market stalwarts.

Our Point

The markets have continued their weakness from last week. There was a slight reprieve on Wednesday after the Fed released its latest policy changes. However, after parsing through the meeting notes and hearing Chairman Powell speak, the markets sold off. The Fed renewed their pledge to keep interest rates near zero and indicated that they could stay at that level until 2023! Not great news for savers but good news for home buyers. The market was likely disappointed when Chairman Powell stated that "More fiscal support is likely to be needed. The details of that are for Congress, not the Fed." Many market participants were putting their hope in the Fed rather than Congress in the current hyper-partisan environment. Longer term, prolonged low interest rates are likely to continue to favor the stock market as investors seek to find yield through equities rather than debt instruments. As we mentioned last week, we think it is very likely that the S&P revisits the bottom of the current trading range in the 3200-3250 level. Hitting the bottom of the trading range would be a 10% loss from the early September peak and would erase all the gains for the year. It is very important support. What it does at that point will be very instructive for the next major market move. A break down at that level would set the stage for much more significant losses. However, a bounce off of support would provide a very tradeable rally and a chance for investors to get a little more aggressive on the long side of the market. Until we get to that point, investors would be wise to remain patient and see how the next few days/weeks play out. In addition to the continued election chaos, next week will bring either a budget deal or a government shutdown. It is no time to be complacent. We made no changes in our portfolios as we are continuing to manage the increased volatility and weakness well. Things can change in a hurry, so we remain ready to make changes as our portfolios and the markets dictate. There should be a hint of fall in the air this weekend, so I plan to spend as much time as possible outside. We hope you do the same and have a wonderful, safe and restful weekend.