BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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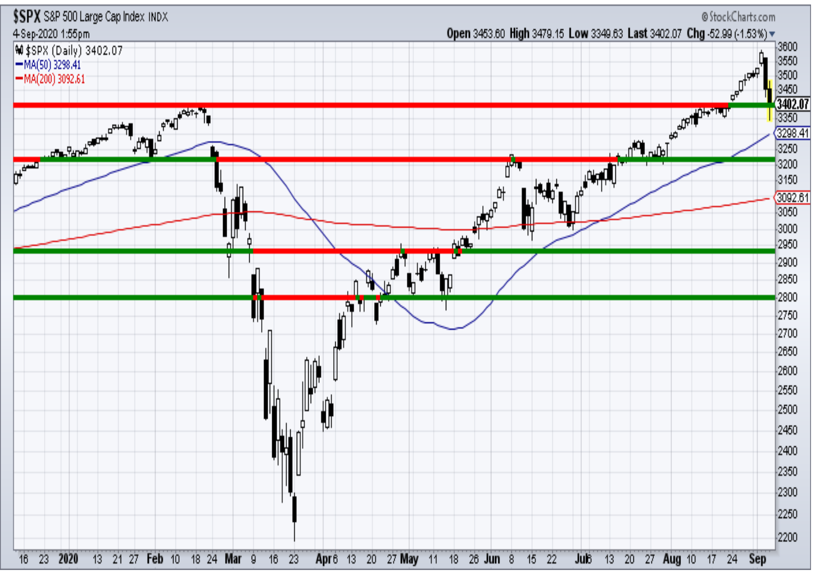

After a month of steady upward movement, the markets succumbed to some heavy selling pressure yesterday and today. Over a 2-day period, the S&P gave up its gains over the last 2 weeks. The index now finds itself back at the level of support at the 3400 level. This is key support and will need to hold to prevent another down-leg in the markets. Support was breached intra-day this morning but has since bounced back to that level. Where the market closes today will provide an indication of whether or not more selling is in store for next week. If support holds, the bulls will have a chance to collect themselves over the long weekend. However, if the bears have their way, a re-visit to the 3200 area becomes much more likely. As we warned last week, the market was very stretched to the upside so the action over the last 2 days is not unexpected.

The VIX has spiked this week with the market decline and now sits at 33.5 – it reached 38 earlier this morning but has since come back. A VIX reading above 25 and rising is a warning sign for investors. For the bulls to regain control, the VIX will need to level off at current levels and start trending down again. With the day to day political jabs, election uncertainty, and continued unrest in the country, a higher VIX may be with us for longer than expected.

Our Point

Market complacency was apparent over the last several weeks, so it was just a matter of time before profit taking and fear returned to the markets. That happened yesterday. The question now becomes if this is the start of a protracted down move or just a short bout of market weakness. Frankly, it could go either way. On the plus side, the markets have been fueled by Fed and congressional liquidity which is likely to continue (though Congress is dragging their feet on another stimulus package, we believe something will eventually be done). On the negative side, there continues to be an uneven recovery in the economy and election uncertainties are certain to roil the markets over the coming weeks. Headlines suggesting that Democrats will not accept any election results and that rioting in the streets will happen regardless of who prevails in November do nothing to quell the uncertainty. That rhetoric is sure to continue the closer we get to election day. This mornings job report was much better than expected and provides a glimmer of hope that the economy is well on the road to recovery. There are sure to be bumps in the road but at least today's report was a positive. The close today will be important as we head into the long 3-day weekend. Movement in the last hour will give an indication of where we are heading next week. We made no changes to our holdings this week as our low volatility portfolio performed exactly how we wanted and expected in the face of market weakness. Our two largest holdings were even up a little yesterday. Sustained market weakness will likely bleed over to these holdings, but we should have fair warning should we decide to exit these positions. We will be watching next week and beyond for signs of a short-term bottom to potentially add more risk to our portfolios. In the meantime, we are confident in the ability of our current portfolio to weather the current weakness. Football returns in earnest this weekend and next week and I couldn't be happier! Let's hope it stays and that this staple of American life continues the recovery of this pandemic. Stay healthy, safe, and enjoy your long weekend – with football or without.