BILLS ASSET MANAGEMENT

BAM MARKET NOTE

OCTOBER 16, 2020

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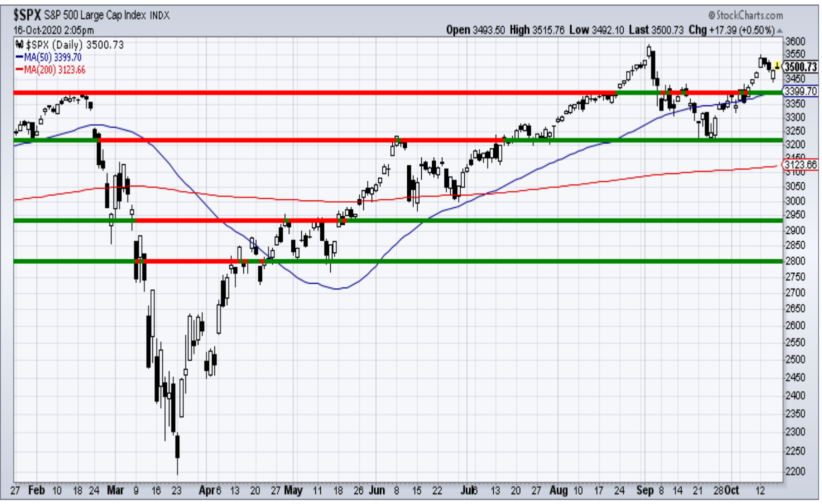
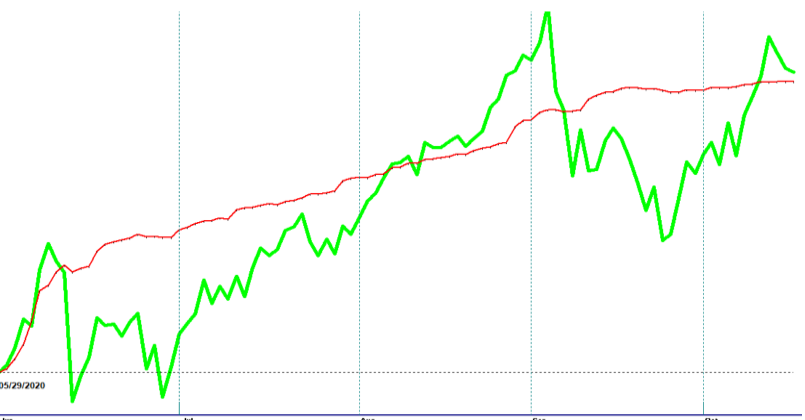


The S&P mostly traded sideways this week but did have a mid-week swoon. Rallies on Monday and today will leave the index up for the week. The highs just below 3600 are the next level to watch on the upside, while 3400 remains the lower boundary. Optimism for a new stimulus deal is driving the markets. The optimistic tone could change quickly if a deal isn't struck. With the contentious election fast approaching, it is hard to see politics not getting in the way of common sense. We'll see. In the meantime, it feels like there is a lot of complacency in the market ahead of the election. Despite the good feelings, we continue to suggest caution ahead of election day.



We have talked at great length about the value of low volatility income funds during the current year. The chart to the left shows an equal weighted portfolio of 3 such low volatility funds that we are holding – the red line. The green line is the S&P 500. Since 5/29/20, both portfolios have virtually the same rate of return. However, the low volatility portfolio has very limited drawdowns and day to day swings are not common. In contrast, the S&P has had significant drops of 7 and 10% that you had to endure to get to the same return. The standard deviation (a measure of risk) is 1% for the red line and 6% for the S&P. Which of these would you rather own?

Our Point

Despite the market run up over the last 3 weeks, there remains a number of reasons for caution. Obviously, with the election just 18 days away there continues to be much uncertainty over who our next President will be as well as how soon we will know the results. October surprises before an election are the norm and this year hasn't been an exception – more will likely come before November 3rd. To this point, none of the surprises have apparently changed the race but October is not done yet. Europe is having a resurgence of Covid – will a similar resurgence happen in the States and what will it look like? Will a new stimulus bill get done? What will Wall Street's reaction be? International issues have taken a back seat, but they remain – China, North Korea, Iran, etc. In the face of all this uncertainty, what has the market done? After a steep decline last month, the markets have shrugged off the uncertainty and recovered most of the September weakness. In the near term, a push to the highs (2% from current levels) is not out of the question, but a return to the 3400 level on the S&P is, at least, just as likely. Earnings season starts in earnest next week so we could see some volatility around the company releases. We will have a better idea of just how robust the recovery has been and what companies are forecasting for 2021. Once the election shakes out, the markets will head into the traditionally strong period of the year. The 4th and 1st quarters are traditionally the best market periods, but we will have to wait this year for election results to determine if that holds true. This year, perhaps more than any other election in recent memory, provides two parties with very different views on the economy. Their will be winners and losers regardless of who wins. Additionally, the balance of power will matter just as much as who wins the White House. Divided government would curtail the power of any one party. Again lots of uncertainty. We upgraded one of our holdings this week into a better performing one and remain fully invested. We continue to be cautious and a little uneasy with the market complacency. If things change, we will adjust our portfolios accordingly. Another beautiful Tennessee weekend to enjoy. We hope you have a great weekend as well.