

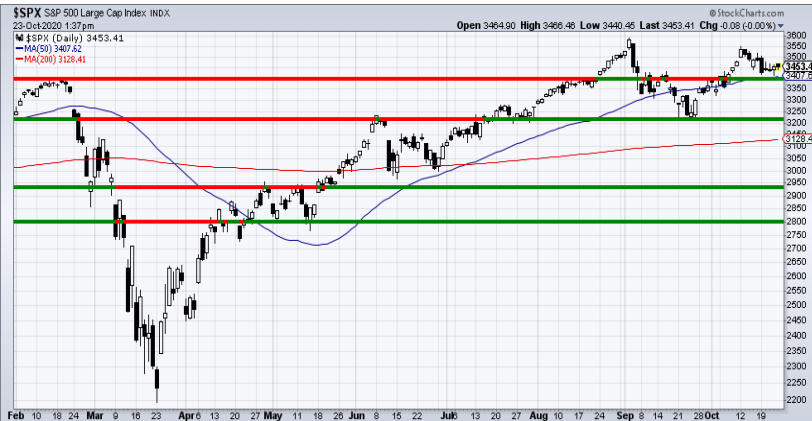
# BILLS ASSET MANAGEMENT

## BAM MARKET NOTE

OCTOBER 23, 2020

SAM BILLS (865) 525-1329

BO BILLS (615) 371-5928



The market has trended down a little this week. Monday weakness gave way to sideways markets the rest of the week. We are getting a little selling pressure today but nothing to be overly concerned about. 3400 on the S&P remains the level to watch on the downside. The highs of early September remain the target on the upside. Election jitters will likely curtail any upward market movement in the near-term. However, downside risk remains an issue going into the election and beyond. With the election uncertainties, investors should remain cautious but be ready to react accordingly depending on the election and stimulus talks.

In the very short-term (last 2 weeks), small caps have fared much better than the S&P and NASDAQ. This relative out-performance is welcome news and could be foretelling a rally to end out what has been a strange and very tumultuous year! The 4<sup>th</sup> and 1<sup>st</sup> quarters are often the strongest quarters and small caps often lead when that holds true. Of course, as with large caps and the rest of the market, much depends on what happens between now and November 3<sup>rd</sup> and whether or not there is a clear winner when the dust settles. Nevertheless, small caps are an important area to watch over the next few weeks and could provide clues to the health of the market.

## Our Point

October started with a strong rally over the first two weeks of the month but has since given back half of those gains. The rally to start the month was not all that unexpected after the significant decline in September and the markets oversold. Where we go from here will likely depend on the election and the earnings reports that continue to come out in earnest over the next several weeks. As we have mentioned several times leading up to the election, in the short-term (longer term there are differences) it is not so important for the market who wins on November 3<sup>rd</sup>. Surely there will be winners and losers depending on the outcome. What is more important for the market, however, is a clear winner. A prolonged election with slow results, potential legal challenges, or contested states will lead to uncertainty which the market doesn't like. The market deals with the hand it is dealt and responds rather efficiently. However, if it doesn't know the cards it is holding then that leads to volatility – and not the good kind! The on again and off again stimulus talks have also created some weakness over the last 2 weeks. However, the market is largely overlooking this. It is very likely that a stimulus deal gets done but is becoming less and less likely that it will get done before November 3<sup>rd</sup>. It very well could be done on November 4<sup>th</sup>. That is politics and is very unpleasant especially when so many are struggling. Some form of stimulus is already priced into the market so stocks could easily sell off a bit on the news. If no deal is struck shortly after the election, that too would cause a sell-off – a more significant one. Finally, if November 4<sup>th</sup>, 5<sup>th</sup>, 6<sup>th</sup> etc. come and go with no clear winner, the indices could easily slide 5-7% in short order. The longer the results take the greater the slide will be. With so much uncertainty, investors would be foolish to make large bets either way in the current environment. Rather, investors would be well served to tighten their stops on existing holdings, develop a short list of positions they would be interested in on weakness, and wait to see what transpires over the coming week or two. That is what we have done. We made no changes to our portfolios but have tightened our stops and are watching things closely. Our positions have continued to perform well and have gains for the month. Carter and I will be among the 10,000 or so fans to watch the undefeated Titans play the undefeated Steelers on Sunday. It should be a beautiful day and, hopefully, a win for the two-toned blue. Have a great weekend and may your teams win this weekend (Steelers excepted).

*The contents of the BAM Market Note should not be construed as advice to purchase or to retain any interest in any of the investments mentioned. Any references to returns are not indicative of future performance and are subject to adjustment or revision.*