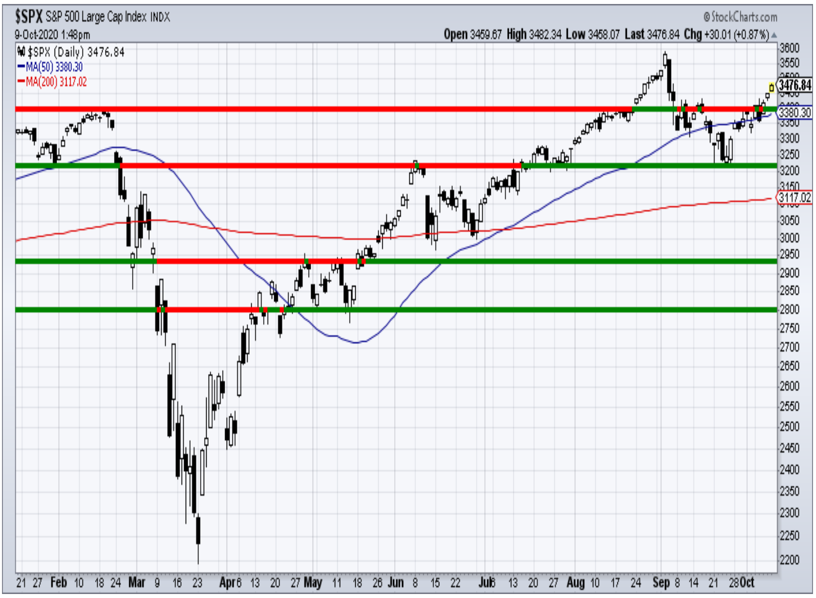
Bills Asset Management

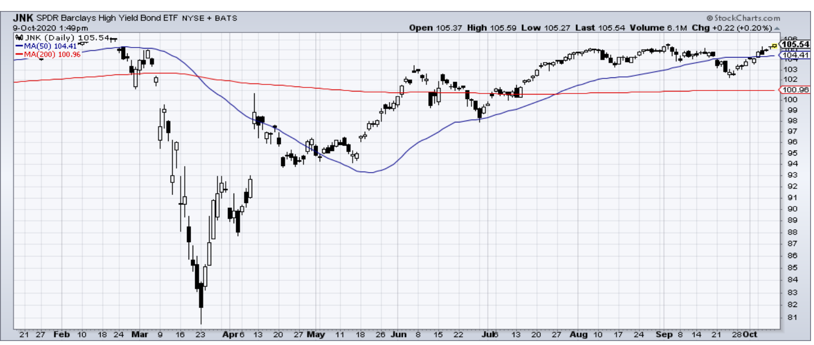
BAM MARKET NOTE

October 9, 2020

Sam Bills (865) 525-1329
Bo Bills (615) 371-5928



What wall of worry? Last week we spoke of all the things that the market "should" be worried about. However, the market just shrugs and surges up. The top of the trading range high proved little resistance after a few false attempts to pierce this level. Despite all the issues, the S&P has made another impressive break-out and appears headed back to the highs set in late August. We'll wait for the next pullback to get too excited but should the top of the trading range hold on any weakness, it may be time to add a little more risk into the portfolio. Even though the market looks pretty good right now, it is getting short-term overbought and the issues that we have been highlighting over the last few weeks do remain and have not been alleviated. Risk remains elevated and October continues to have a bad reputation so caution should still be a part of your lexicon.



High yield bonds are often a canary in the coalmine for the market. If that is the case currently, then the rally looks to continue. After weakness in September and a fall below their 50-day moving average, high yields have climbed back above this important measure and show no sign of weakness. It is another confirmation of further strength. We'll see what happens on a market pullback, but the behavior of high yields is very encouraging.

Our Point

While it appears there is much the market should be worried about, those cares were thrown out the window this week as all the major indices broke to the upside. From a technical perspective, the downtrend that started in September is over. While we are not yet back to the highs, the pattern of lower lows and lower highs has been broken. Additionally, the trading range that had curtailed the market over the last month is no more. While it could come back into play, the break above resistance indicates that the bulls have seized control again. High yields are confirming that move. Additionally, we have been highlighting the dollar over the last few weeks and said that continued weakness in the greenback would likely lead to a break to the upside. Dollar weakness has persisted and that (among other things) has provided fuel for the market to move up. While there remains much that could spook the market over the coming few weeks, the recent strength of the move is undeniable. Of course, we will see the resilience and conviction of the bulls when the next pullback comes. With the market a little frothy to the upside, that weakness could come next week. Should any weakness hold at support at the top of the old trading range, investors should consider getting a little more aggressive. However, with so much uncertainty surrounding the election and Covid, any moves should be measured and made with sell stops in mind. We have a couple of positions that we are looking to add to our portfolios given a pullback that holds. However, we made no changes this week. Our portfolios continue to perform as we had hoped and are grinding up in good markets and bad. Our thoughts and prayers are with our clients, friends, and all those in the path of hurricane Delta. It has been a brutal hurricane season for those in Florida, Louisiana and Texas. We will get the aftermath with some wind and lots of rain tomorrow and Sunday. Enjoy a quiet weekend inside doing some home chores and watching a little football. We say it often but not nearly enough – thank you for entrusting us with the care of your finances. We do not take it lightly and are so very appreciative of your trust.