

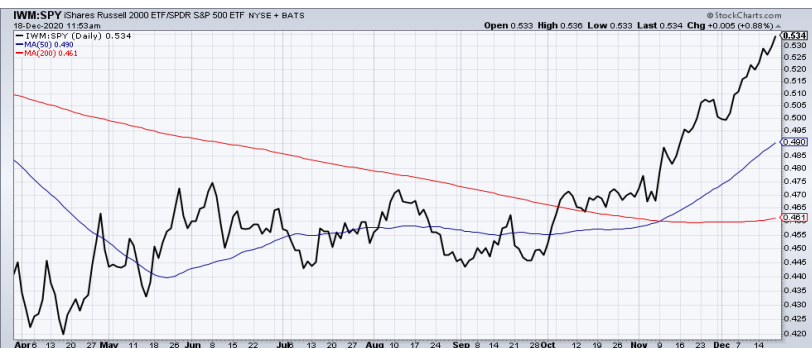
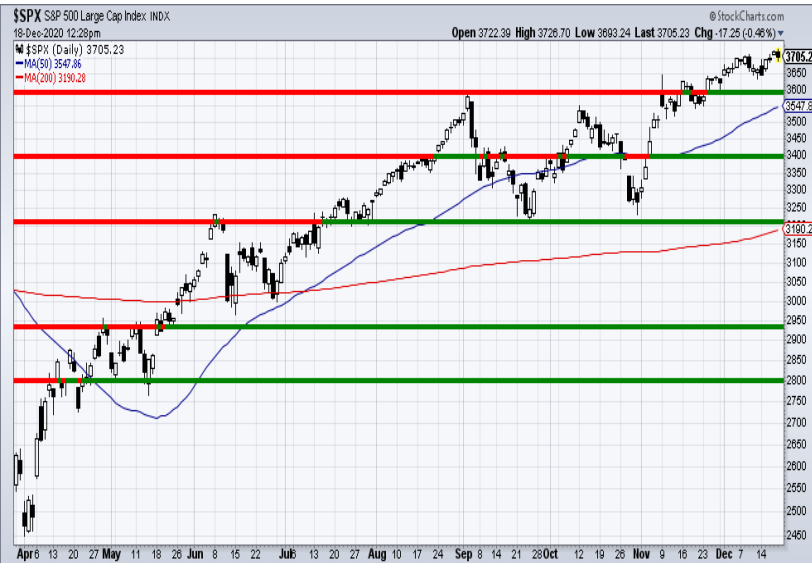
# BILLS ASSET MANAGEMENT

## BAM MARKET NOTE

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The beat goes on and the market grinds higher. Despite rising Covid cases, economic shutdowns in various parts of the country, a failure by Congress (to this point) of passing any new stimulus, etc. the markets continue to move up. The promise of new stimulus (we continue to believe that a new package is forthcoming) is keeping Wall Street happy for now. Should that not come, then a significant and violent sell-off would be very likely. The market is also counting on a split government. Should one party control all of Washington, then a significant market correction becomes increasingly likely. And, of course, there is always the possibility of something happening that nobody has on their radar that could upset the apple cart. No one was predicting a worldwide pandemic this time last year! The moral is don't get too comfortable and remain vigilant despite the ongoing upward markets.

As you can clearly see by the chart to the left, there has been a major shift in the markets since November. Small caps which had been a relative laggard to the rest of the market, caught fire in early November and haven't taken a breath since then. The relative strength of small caps to the S&P 500 doesn't appear to be slowing. The development is a very favorable one and leads us to believe that this market has more room to run. Savvy investors will continue to monitor this relative strength to confirm the health of the market.

## Our Point

Last week's weakness gave way to strength this week as the market gained back the little bit that it had lost. I keep expecting a mild correction, but the market may not be ready to give back any gains yet. The sideways action over the last couple of weeks may be the only respite in the market advance. While certainly not always true, the last week and first week of the new year are historically one of the 2 best market weeks in a year. There is little reason to believe that will be any different this year though the gains over the last month do create a small degree of unease that many of the gains have already been made. That said, we continue to believe that we will finish the year on an up note. Of course, there are several known (and innumerable unknowns – black swans) events that could change our thinking drastically. While a Covid Relief bill has been stalled in Congress for weeks, very few people actually believe that a deal won't get done. The question is just in the timing. Democrats are seeking a much larger bill than Republicans and may be waiting to see the outcome in Georgia before agreeing to a scaled down stimulus. If the Democrats can take both Senate seats in Georgia, then they would be free to pass a much larger bill than currently being negotiated. Speaking of Georgia, should both Senate seats move to the Democrats then I believe that the markets would sell off significantly. This is not a political statement, but rather the reality that Wall Street doesn't like drastic change and a shift in power in Washington would create the backdrop for fundamental change in taxes, social, immigration, and energy policies to name a few. As of now, investors believe that Republicans will hold onto at least one of the two seats up for grabs – maintaining a split government. Should that change in the coming weeks, then volatility will return, and the market will sell off until it can digest the new paradigm. It is certainly something to keep an eye on as January 5<sup>th</sup> nears. Save some minor changes to a few accounts, our portfolios remained unchanged this week. We continue to enjoy solid and steady gains to finish out what has been a good investing year for us. We hope to finish strong over the next two weeks and continue to look for opportunities to better our holdings. As noted last week, our holiday schedule will have the final market note of 2020 coming between Christmas and New Year's. We hope you all have the joyous of holidays and a very Merry Christmas. Stay safe and stay healthy.