BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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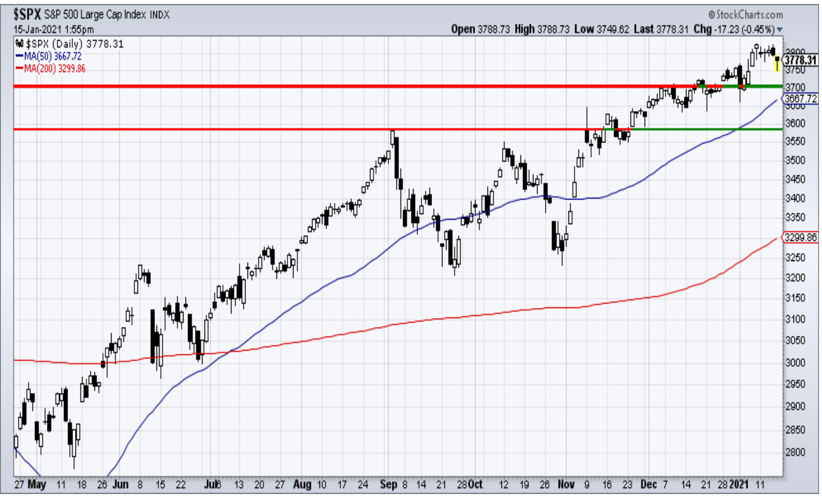
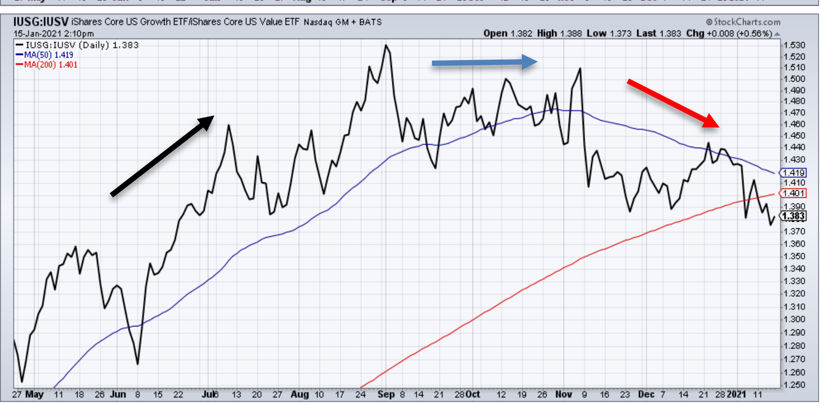


The market opened sharply lower today but has since regained much of the losses. For the week, the large cap index has trended down and has lost a little over 1%. Year to date the S&P is up a modest .5%. It would not be surprising for the current weakness to persist into next week. Support rests at the 3700 level and would mark a 2% decline from the current level. The markets have been largely immune to bad news since early November. At some point that will change and weakness will turn into something more ominous. We don't see that on the horizon, but the markets can change quickly. 3550-3600 remains much more important support and would be a more meaningful decline (6% from the recent highs). Weakness should be bought in the current environment.



The character of the market has changed significantly over the last 2 months. While growth stocks dominated for much of 2020, value stocks have shown increasing relative strength since November. Value has excelled over the first 2 weeks of 2021. Market strength has also broadened measurably with small caps soaring over the last several weeks. The small cap Russell 2000 is up over 8% to start the year dwarfing the early 2021 returns of the S&P 500 and NASDAQ.

Our Point

The markets have taken a little breather this week. The continued turmoil in Washington and the threat of more unrest heading into the inauguration next week has given traders a reason to pull back their risk a little bit. Yesterday's jobless claims report marked the highest levels since August and illustrates that much work remains in restoring the economy. There continues to be a large disconnect between stock market values and the state of the economy. That difference can remain for longer than one might expect but will need to narrow over the coming months for the rally to continue. Hopefully, the vaccinations can continue to ramp up and economies throughout the country can open up more fully. President-Elect Biden released his plan for the next round of stimulus. The $1.9 trillion price tag was less than the left wanted, and far more than the right wanted. There is much work left to do to get the next round of stimulus drafted by Congress and passed. Despite a Democratic majority in both chambers of Congress, the margins are razor thin (11 votes in the House and 1 in the Senate). More stimulus is coming but it will likely disappoint many Democrats and Republicans alike. As long as the money is flowing, Wall Street will continue to cheer with higher prices. As mentioned above, there has been a huge shift from large caps to small caps. The market generals of last year (Facebook -10%, Amazon -4%, Microsoft -4%, NetFlix -7%, and Google -1%) have all stumbled so far this year. While a broadening of the rally is very healthy for the market, continued losses by the large cap leaders will eventually pull down the rest of the market. Look for these large cap leaders to stabilize before getting too enthused about the continuation of the rally. Our portfolios have started the year off very well with gains well in excess of the S&P. No changes were made to our portfolios. We continually analyze our holdings and will make changes as our current positions dictate. If it isn't broken, don't fix it! Upon the next significant market pullback, we will be tempted to add more risk to the portfolios but that is a topic for another day. I will be grieving a bit this weekend as it will be the first weekend in the last 4 months that I don't have a Titans game to watch or an opponent to scout! I will enjoy watching the playoffs but not with the same gusto. I will spend the weekend getting some neglected home projects done. Enjoy your weekend doing what brings you joy.