BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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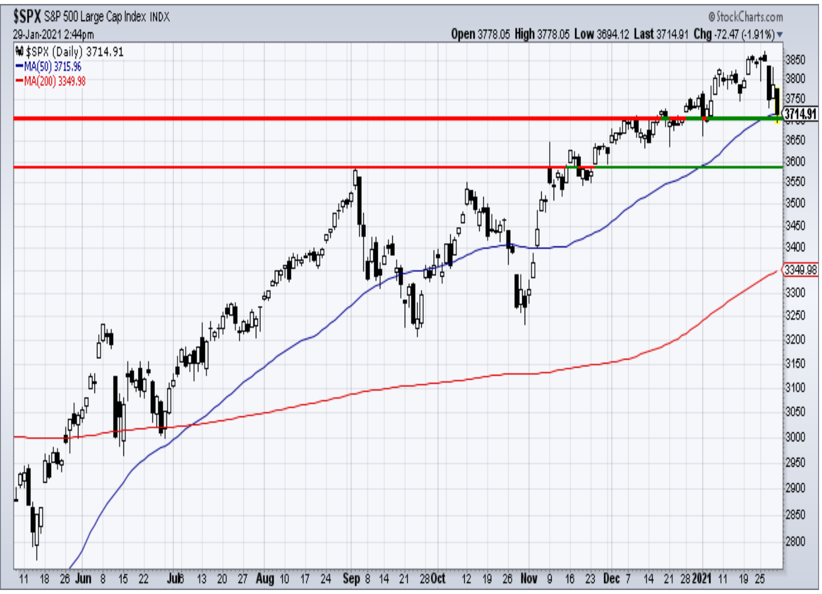

Volatility has picked up considerably this week as day-to-day swings have been the largest since October. The low volatility drift up has been replaced by large up days and down days. The down days are winning the battle currently and the S&P now rests at important support. The S&P is on pace for a weekly loss of 3%. As we have been warning for at least the last couple of weeks, weakness was likely. In fact, we reduced our equity positions last week in anticipation. The question now becomes – is it over? While it is possible that support holds at current levels, we suspect that more weakness if forthcoming and a test of the lower band of support around 3600 is expected. The dip to 3600 would be another 3% loss for large caps and would take us back to where we were in November. A decline to this level that holds support would be an excellent spot to get a little more aggressive in this market.

You have no doubt seen GameStop in the news this week. GameStop is a relatively staid and mundane retail chain with an uncertain future. However, an army of retail traders organized on investment boards hosted by Reddit and others, have turned Wall Street on its head. Note that GME was trading at $6 a share back in August. It is now trading at over $300 per share. A gain of 4900% in 5 months!

Our Point

The GameStop story is a fascinating case study on the workings of the market. When GME doubled in price back in November it got the attention of “smart traders” and hedge funds on Wall Street. The “smart money” started shorting the stock (betting the price would go down). The Reddit world responded by buying more GME forcing “smart traders” to cover their shorts by buying shares to cover their shorts and driving up the price. The process has been repeated a number of times and GME is now trading at close to $300 per share making millionaires out of a number of Reddit traders. Hedge funds have suffered huge losses. Large hedge funds, professional traders and other powerful people are very upset that a group of upstart retail investors are “manipulating” the market. However, it appears that there is no illegality and that the little guy is only doing what the large hedge funds do every day – taking advantage of the inner workings of the market. What is most surprising is the scale and the power of this growing group of bulletin board traders. Lest you think that GameStop is the only stock behaving in this way, there are a number of other issues that have rocketed in similar fashion. AMC Theatres, BlackBerry, Koss headphones, and retailer Express have similar stories. With little in the way of earnings or fundamentals to justify the valuations now on these companies, this will end badly for those jumping in late. While the valuations are reminiscent of the tech boom of the late ‘90s, the causes are very different. Though the markets are certainly over-extended, we are not in the middle of another boom like the tech bubble. One could argue that we are in a liquidity-based bubble (we have touched on that in the past) but that is a subject for another day. For now, the markets are volatile, and investors should pare their portfolios to their level of risk. A good buying opportunity will come out of the current weakness, but it will pay to be a little patient. We pared some risk from our portfolios last week but made no changes this week. While the S&P looks to finish the month down a little, all of our portfolios enjoyed a positive month ranging from 1-2%. Bundle up and enjoy your weekend.