BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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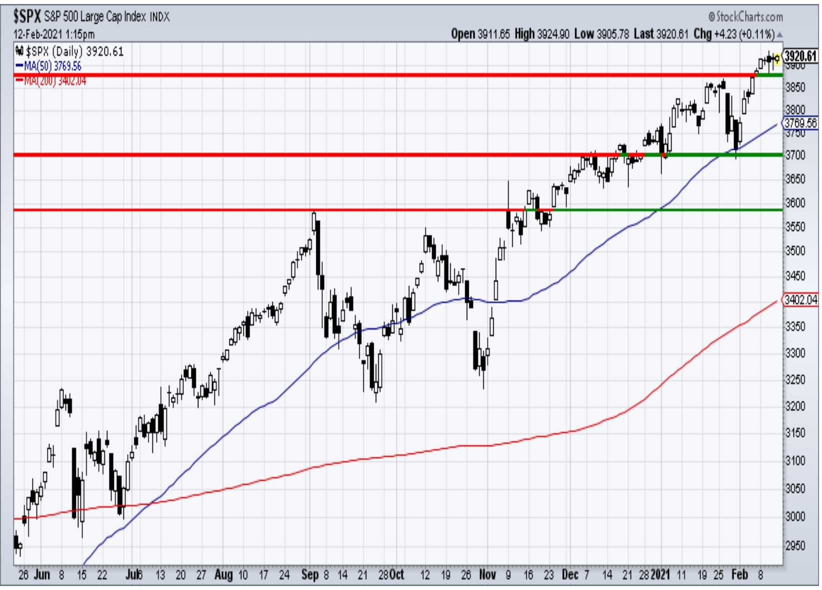
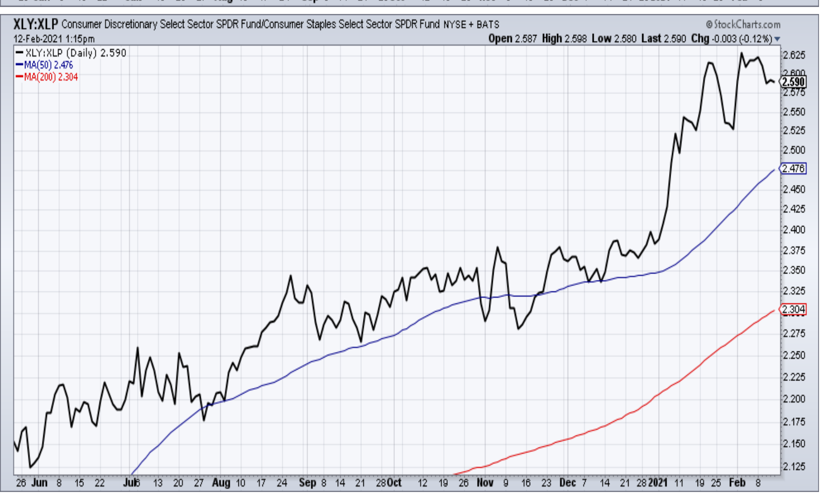


After a decent up day on Monday, the S&P has moved sideways for the remainder of this week. The index remains a little short-term overbought, but the sideways movement is allowing some of that froth to be worked off. The current balance between buyers and sellers will likely break one way or another next week. The index remains at or near its highs so any break to the upside could be significant. On the flip side, a break to the downside is likely to find support at the 3700 level and would mark a 5% decline from current levels. A decline back to the second line of support would entail a fall of 8%. A correction to this level would be entirely normal and would do nothing to the long-term upward trend of the markets. Should the markets pullback and hold either line of support, investors would be well-served to add a little more risk into their portfolios.



Intra-market relationships can tell you much about the strength of the markets. The ratio of discretionary issues and non-discretionary (staples) issues can provide clues to the willingness of investors to take on risk. Generally, the market is on more firm footing when discretionary is out-performing staples. Similarly, when staples are out-performing discretionary, investors are becoming a little more cautious. Discretionary led for much of January before falling with the late January decline. The out-performance returned with the early February rebound. However, despite higher stock market prices, staples have begun to out-perform over the last 2 weeks. It doesn't mean that a correction is imminent, but it does bear watching as traders begin to get a little more defensive.

Our Point

It has been a relatively quiet week for the markets. Markets work off overbought conditions in one of two ways. They either correct or move sideways for a period of time. With the markets short-term overbought, this week was a time to digest the recent gains. Obviously, a sideways market is the least painful way to work off overbought conditions. The gains of early February are being digested and next week will likely bring a resolution to the upside or downside. Regardless of the resolution, the bull market is alive and well and a constrained decline would not change that. Rather, a measured decline would be an opportunity for those that missed the recent rally to put their money to work. While the relationship between discretionary and staples is a powerful indicator of market temperament, it is but one measure. Other measures indicate a bullish market environment. In the current environment, small cap stocks continue to lead this market higher. Additionally, high yield bonds show no signs of distress. So, while in the short-term we may see some continued sideways or down movement, the environment remains favorable. Our portfolios are performing well and have outperformed the S&P year-to-date with much less day to day volatility. We have some cash available to redeploy on any weakness and will be looking to do that over the next week or two. There are a number of areas in the market that look intriguing. It looks to be a frigid weekend so get those indoor projects done – Spring is right around the corner. Don't forget Valentine's Day on Sunday! Continue to stay safe and healthy and have a great weekend with the ones you love.