BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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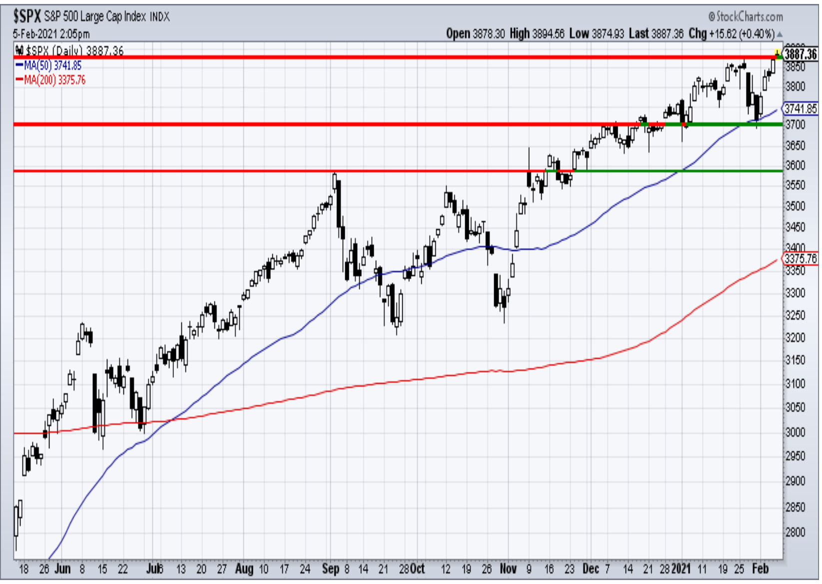

The S&P fell nearly 4% over the last 7 days of January and paused right at the 3700 support line. Support held and this week saw a resurgence of the index back up to the January highs. To us at least, the quick recovery is surprising. While we remained bullish, we did expect another week or two of weakness and a visit to support at the 3600 levels before a rally back up to the highs. This is not an easy business! We may yet see weakness in February but, for now, the markets look pretty healthy. However, it should be noted that just as the markets were a little oversold after last week's weakness, they are now equally overbought. With the markets also at their January highs, this would be a logical place for the markets to stall. We'll see what happens next week.

Small cap stocks have been the story since November. As you can see in the relative strength chart to the left, the outperformance of small caps really took hold in November and continued through half of January. There was a pause for the last couple of weeks in January, but it appears the relative strength is re-emerging. In this environment, small caps should be a part of your portfolio.

Our Point

As we mentioned last week, the GameStop story would end in tears for those late to the party or staying too long. That has already come to fruition as reality struck. GME stock has fallen a precipitous 80% this week! Ouch. For the broader market, near-term movements will likely be driven by the ongoing stimulus talks. The Democrats want a $1.9 trillion package while the Republicans are arguing for a $600 billion package. It is a wide gap to be filled. There will be additional stimulus and it will be somewhere between the two proposals. Wall Street will likely cheer whatever is passed but there is the possibility of a buy the rumor sell the news reaction – especially if the end package comes closer to the Republican's smaller wish list. Over the last year (and perhaps going back to 2008!), the markets have become increasingly dependent on stimulus to keep the party going. At some point, the money taps will stop flowing or the market's fear of uncontrolled inflation will lead to a bear market but that appears to be some time away. For now, the markets continue to look forward to more stimulus, more economic recovery and more normalcy. As for the last two, they cannot come soon enough. The monthly jobs report was released this morning and was mostly in line with projections. A meager 49,000 jobs were created while the unemployment rate fell to 6.3%. However, much of the fall in the unemployment rate can be attributed to people leaving the work force rather than people getting jobs. The relatively weak report provides political cover for a bigger stimulus package though Wall Street reacted with a shrug to the report. Our portfolios have continued their upward trend and are on pace for another good year. As mentioned in last week's report, we pared some risk from our portfolios before the recent weakness. We fully expected a little more weakness than we got and are now in the position of determining whether or not to add back a little risk to our portfolios. The net result of our portfolio change was negligible as the market has gone down and back to the same levels. Next week will be decision time so changes could be forthcoming. I was supposed to be writing this report from a sunny beach in Mexico but Covid had different plans in store. We'll make the most of it with a little beach music and a margarita while watching the Super Bowl. Have a super weekend.