BILLS ASSET MANAGEMENT — **BO BILLS** (615) 371-5928
SAM BILLS (865) 525-1329
CARTER BILLS (615) 371-5928

BAM MARKET NOTE

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Our Point

The markets continued their woeful ways this week as the S&P suffered a big down day on Monday and failed to bounce with any significance. The well defined down-trend of lower highs and lower lows remains intact. For the week, the S&P looks to be down another 2%. For the year, the S&P is down 11% and the NASDAQ is down 17%. Bear markets are defined as a loss of 20% and the S&P would need to decline another 400 points (3840) to reach that level. The 20% number is arbitrary and really not a true reflection, but you have to start somewhere. Are we heading into a bear market or already in one? It is a question I have gotten a number of times from clients and friends over the last few weeks. The short answer is I don't know. Technically, we are not - but we are obviously moving that way. Of course, every bear market starts with losses like we have seen. Interestingly, since 1946, 11 of the last 12 recessions have started with an oil shock and we certainly have that in place. Additionally, you have been hearing from me for many months that inflation was/is not transitory, and that the Fed would have a difficult time navigating the need to raise rates with the fragility of the economy. The Fed remains in a precarious position, and we will get a glimpse into their thinking next week at the March meeting. A 25-basis point increase is all but certain so any deviation from expectation would be detrimental to the markets. Don't raise and the market will be spooked by a Fed that is ignoring growing inflation issues. Raise 50 basis points and the market will be worried that it will slow the economy too much. Lest one feel sorry for the Fed's untenable position, it is of their own making as they should have been raising rates last year when the economy was stronger and inflation just beginning. It is starting to feel that the excesses of the last several years are starting to unravel. Despite the markets meeting the technical definition of bear markets twice over the last 14 years, one can argue that those two occasions were strong corrections that recovered quickly. In most cases, bear markets last for more than a few weeks and typically are drawn out over several months to a year or two. In any case, the market remains extended, and a bear market reset has not been accomplished since 2008. We are long overdue for a bear market of some significance. I can assure you with 100% certainty that it is coming, but I cannot tell you when. I also believe that it will create much more damage than the 20% technical definition of a bear market. The good news (and it is very good news) is that those that manage the next bear market well and avoid life changing losses will be in a position to capitalize on the inevitable rebound with much of their principal intact. For those that manage well, the rebound will be life changing too! But in a very good way. Risk is elevated and we would caution investors about getting too excited over strong counter-trend rallies. Counter-trend rallies can look inviting but until the downtrend is broken, one would be wise to remain patient. We remain defensively positioned and will exercise caution and patience until there is more clarity on the state of the market. It is a good weekend for cold weather and snow to return as I can watch the start of basketball post-season with a clear conscience. Enjoy yours wherever it finds you.

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