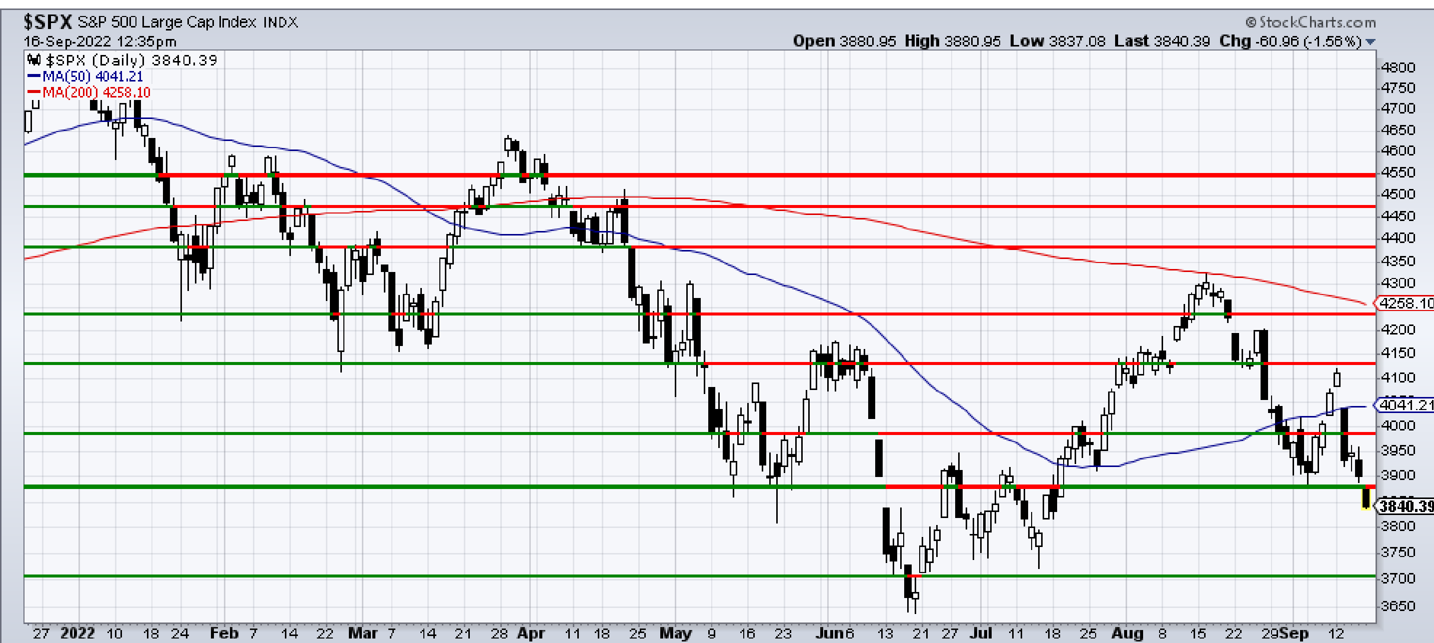
BILLS ASSET MANAGEMENT | **BO BILLS** (615) 371-5928
SAM BILLS (865) 525-1329
CARTER BILLS (615) 371-5928

BAM MARKET NOTE

SEPTEMBER 16, 2022



Our Point

Last week we noted, "Upside from here is likely limited but It is possible we could test the next resistance level at the 4130 level. We continue to believe that any rallies should be sold to bring your portfolios back to your risk tolerance. The bear market will eventually end but we suspect more pain is ahead before then." Well, the markets did make a run at 4130 getting to 4119 before turning back down. And turn down it did! Tuesday's CPI report shook Wall Street as inflation increased month over month halting the narrative of peak inflation. As Mark Twain said, "It's not what you don't know that gets you in trouble, it's what you know that just ain't so". The higher CPI numbers also solidified the Fed's expected 75 basis point hike next week and even put a full 1% rate hike on the table. On Tuesday, the markets had their worst day since the early days of the pandemic back in 2020. Absent a rally this afternoon, the S&P looks to lose around 5.5% for the week. Support levels were breached on the way down setting up a likely return visit to 3700 or beyond. With the selling this week, a rally next week would not be surprising. As we have been saying for months, rallies should be used to bring your portfolios back to risk levels you are comfortable with. All eyes will be on the Fed next week as the much-anticipated rate decision comes on Wednesday and Chairman Powell answers questions that afternoon. The chances of a hard landing continue to rise, and we expect a weak market in the near term. That is not to say that we won't continue to have strong bear market rallies, but we would caution about getting too excited. There may be opportunities to add some short-term risk back into portfolios, but I would suggest this only for the nimblest of traders. For most, it is better to sit out this volatile market and wait for conditions to improve. The current market is a stark reminder that a buy and hold investment strategy can be very painful. It is worth knowing that the last phase of a bear market is often the most painful. During the bear market of 2008, the S&P lost 19% from January 1 until September 15, 2008 (the same amounts that we have in the current bear market). From September 16, 2008 to the ultimate bottom on March 9, 2009, the S&P lost another 44%!! We are not necessarily predicting the same now, but it would not be unheard of. For non-clients that are reading this – hope is not an investment strategy and putting your head in the sand or not opening up account statements does not make losses any less real. If you need help managing the current volatility, please give us a call to discuss strategies. For our client readers, we have managed the current volatility very well as our defensive holdings are in a sweet spot. While the market was down 5-6% this week, our portfolios have shown respectable gains. We are continually evaluating our positions and will make changes as market conditions dictate. For now, we are very comfortable with our holdings. Should we embark on a bear market rally, we will consider the prudency of adding positions to take advantage of any short-term strength. Last weekend was half-full and half-empty. While elated with the Vols win on Saturday, I was equally deflated with the Titans on Sunday. The sun did come up Monday morning and I am looking for redemption this weekend. Hoping your next few days are full of something fun.

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