BILLS ASSET MANAGEMENT

BAM MARKET NOTE

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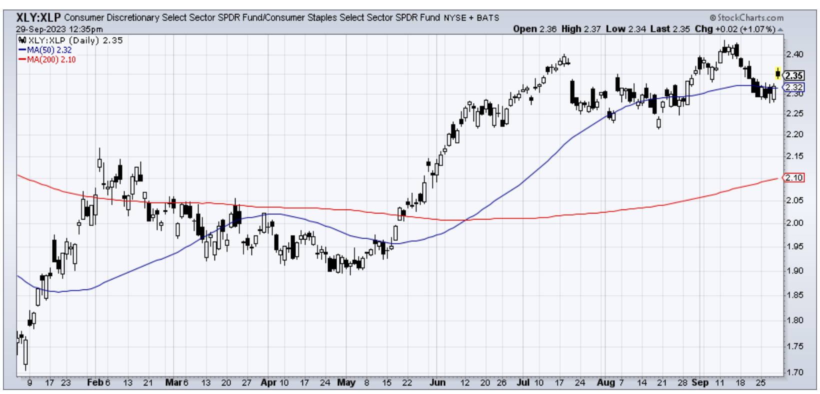
As expected, September has been a challenging month with all of the major indices down significantly. The S&P looks to close out the month today with a loss of over 4.5% and the NASDAQ nearly 6%. It has been an ugly month. In fact, it has been an ugly quarter with the S&P and NASDAQ down over 3% and 4% respectively. With the market oversold, we expected some sort of rally this past week and we have gotten a small one. The failure of the market, to this point, to mount a more serious counter-trend rally is concerning. We'll see if next week provides a little more strength. The S&P tested support at 4240 before bouncing back up to resistance today at the 4300 area. It is struggling to get above that level. Stay cautious.



While there are a number of troubling signs, one positive is the relationship between consumer discretionary and consumer staples. If we were on the brink of a more serious decline, one would expect this relationship to tilt significantly in favor of consumer staples. That is not happening at current which leads us to believe that the current weakness should be confined to the 5-10% level that we have been expecting. We may get a little more weakness before finding a bottom, but this chart indicates that strength should follow the weakness in the short-term.

Our Point

After a promising start to the day, all of the indices are in the red as of this writing. The monthly PCE (the Fed's favored inflation report) came in this morning right in line with expectations. The market took that as a positive and opened with relatively sizeable gains this morning. The gains didn't last long, and September looks to finish the month like it started… weak. As readers know, we have been expecting a decline of 5-10% and we look to be getting just that. The downside target is 4200 which is a significant level of support and also happens to be the level of the 200-day moving average. If we get to that level, we will have a 9% decline in the S&P which fits in our thesis of a few weeks ago. We won't go so far as to predict a decline to that level, but we do think that the odds favor a decline of this magnitude over the next few weeks. That is not to say, that we can't have a counter trend rally in the interim that could approach 2-4%. In fact, we believe that we will get that over the next week or two. There is some current volatility associated with the likely government shutdown this weekend. However, we have been here before – 14 times since 1980! The result has always been uneasiness but a quick recovery of any associated losses. We suspect the shutdown will last a few days and any weakness will be short-term as the market looks beyond the current Washington dysfunction. The market is much more concerned with inflation and economic strength/weakness. We'll get another measure of that next week with the jobs report – always a potential market mover. Third quarter earnings will begin in a couple of weeks and that will be the next significant driver of this market. We made a few changes in our holdings this week as we purchased a small equity position in our more aggressive accounts and sold a few bond funds that had met their sell stop. We continue to believe that a rally in the 4th quarter is more likely than not so raising a little cash will be a good thing. My Vols and Titans join the market in having a disappointing September. The end of the month can't come soon enough and hoping that all 3 enjoy a prosperous 4th quarter! It looks to be another sunny and warm weekend – we hope you have something fun planned. As always, thank you for your trust and the privilege of assisting you with your finances.