Bills Asset Management

BAM MARKET NOTE

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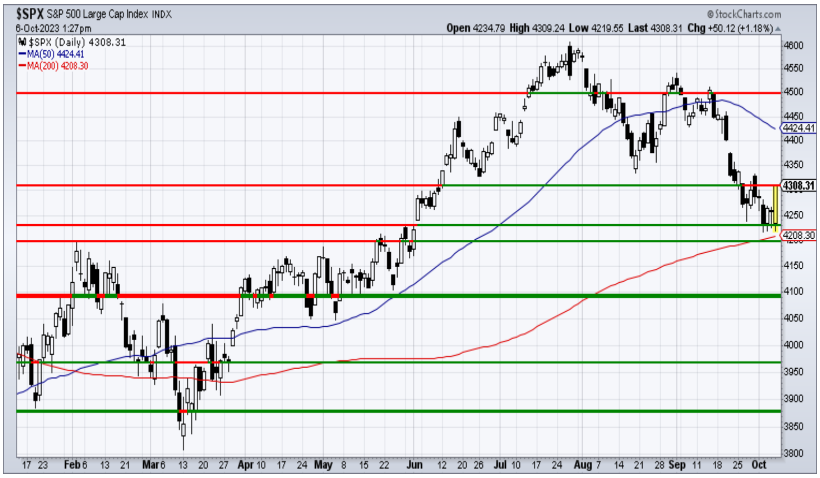

September ended on a sour note and, earlier this week, October continued the downward trend. As you can see from the chart, support at 4230 was tested 4 times this week and held every time. It was tested again this morning and bounced in the face of the bearish jobs report. Despite the ugly looking market, the fact that the market has found some support is a positive development. As noted in prior notes, we viewed the 200-day moving average as a potential floor for the recent weakness. While we didn't quite get down to that level, we did get pretty close. That metric still remains a possibility, but it is also possible that the worst of the selling is over (for now) and could be setting the stage for a sustainable rally into the 4th quarter.

As we have been noting for several weeks, the opportunity for excellent returns in the bond world is building. Once the market determines that the end of the interest rate hike cycle is done (this may well be before the last hike) and interest rates are heading down again, bonds will be a compelling investment option. You can see the opportunity clearly in TLT. Twenty-year treasuries have fallen off a cliff and are at their lowest level in almost 10 years. When this turns, TLT among many other bond funds will provide excellent returns. We are watching.

Our Point

This market has a mind of its own. Nearly all market participants expected the market to fall on a positive jobs report this morning. Well, the monthly jobs report came in very hot this morning doubling the market's expectation of job gains – 336,000 jobs created vs the expected number of 171,000. The hot report initially turned the market red, but we have now reversed all those losses and the market is firmly up. It is not what was expected! Of course, the day is not over, and it will be interesting to see how the market finishes the day. The continued strength of the labor market makes it much more likely that the Fed raises rates in November. Many other market soothsayers also were convinced that the impending government shutdown would do unimaginable damage (we were never in that camp). Well, the shutdown never came as Congress kicked the can down the road 45 days and the market shrugged, indicating that it really didn't care one way or another. We'll get another round of government shutdown doomsday talk in mid November. On a political side note, one of Congress' most important jobs is responsibly funding our government and budgeting. Yet, through Republican and Democratic congresses and everywhere in between we have not had a full budget passed on time in the last 25 years! Plenty of blame to go around on both sides of the aisles. Now back off my soap box… The surprising market reaction is a stark reminder that the market often acts in less than predictable ways. "Experts" always pontificate on why the market is going to go this way or that, but the reality is that nobody has any clue what the market is going to do today, tomorrow, next week or next year. While we often provide some context in these pages to provide our opinion of where the market might go next, we are constantly reminding our readers that it is only our best guess and that we would rather follow the technical charts to make our investment decisions rather than on what we think will happen. We definitely have our opinions but strive not to make investment decisions based on our biases. We continued to raise a little cash this week as we sold a couple of positions that met their sell stops. We continue to believe that a 4th quarter rally is coming but will wait for the charts to confirm our opinion. Patience isn't always easy. Fall looks to arrive later today and tonight as temps dip into the forties! Time to get out the sweatshirts and make sure the heat is working! Enjoy your cool Vol-less weekend.