Bills Asset Management

BAM MARKET NOTE

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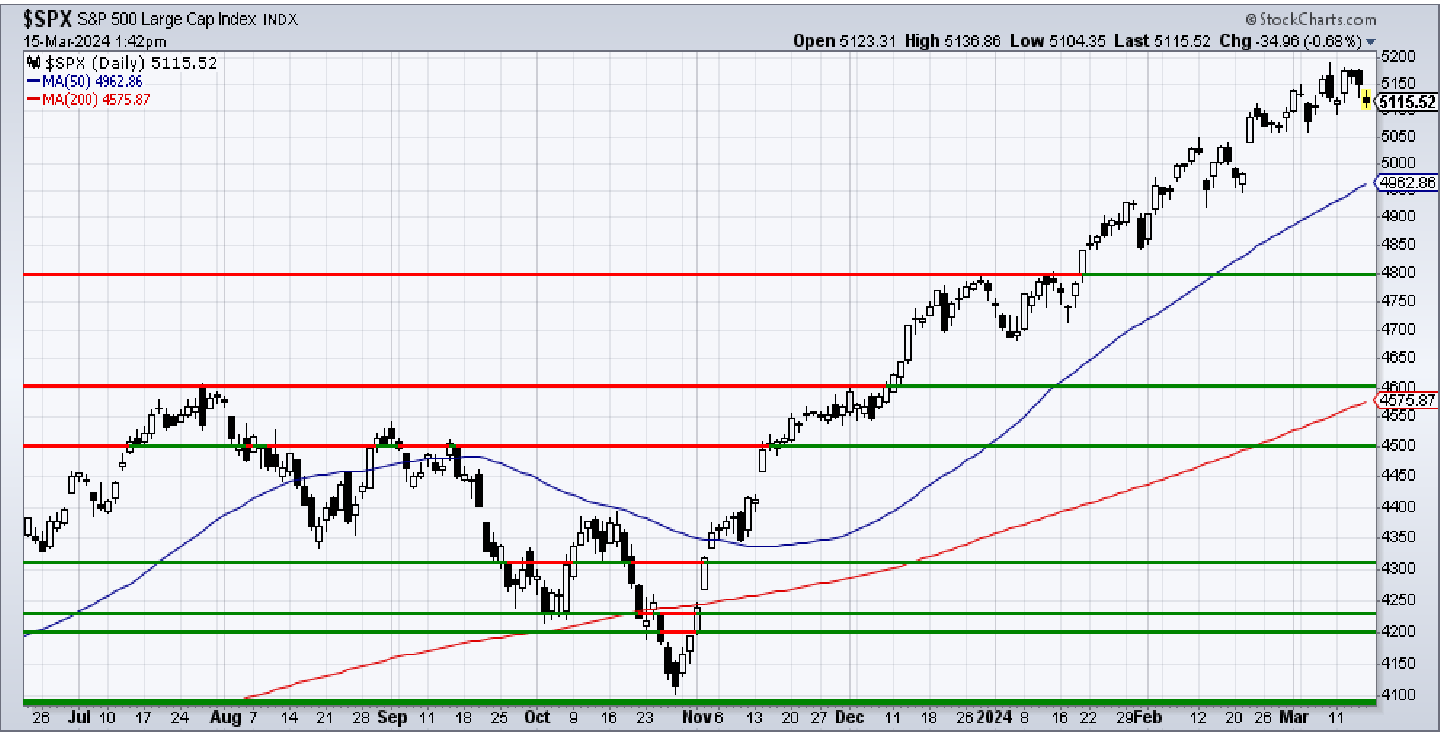

Our Point

After a run of 16 out of 18 up weeks, the S&P looks to log its 2nd down week in a row. While the losses have been marginal, the slowing momentum could forebode an upcoming significant correction. After such a large move off of last October's lows, it is not surprising for the market to take a breather. The question, of course, is this a breather or a topping formation that leads to a deeper correction. The jury is out but the market is due for some corrective action. The market did weather a slew of disappointing inflation data and a disappointing retail sales report. Both the CPI and PPI came in hotter than expected as inflation remains an issue. The Fed has to be at least a little concerned that inflation could reaccelerate over the coming months. That realization has likely pushed any rate cuts back to its June meeting at the earliest. The hotter inflation report even had some pundits wondering if the Fed will need to raise rates again! We don't think that will happen. While the large caps largely shrugged off the inflation report, small and mid caps both took a leg down as their businesses rely on debt much more than their big company cousins. Next week's Fed meeting will hold little intrigue as the Fed will not be moving interest rates. However, it will be interesting to see how the Fed navigates the recent inflation reports in the press conference next Wednesday afternoon. That could be a market mover. The major indices lack of movement in the face of disappointing economic data is encouraging as investors keep on buying every small dip. At some point that will change, and we will get a significant correction. On the S&P that would entail a decline at least to the 50-day moving average (3% decline) and much more likely back to support at the 4800 level (8%). It's not a matter of if but when. Interest rate sensitive bonds also weakened a bit this week as interest rate cut expectations were pushed out a little. Bonds will be an important part of most every portfolio leading up to and beyond the ultimate decline in the Fed Funds rate. We made no changes to our portfolios this week and are watching the current weakness closely. Should the market consolidate and head higher, we may consider putting some of our cash positions back to work. However, if the market turns down for the anticipated correction, we will be glad that we have a little cash on hand to put to work at lower levels. It continues to be a resilient market with willing buyers stepping in and sellers without conviction. Speaking of resilient, as I write this, the Vols just posted their worst half of the season in the SEC tournament. It has been a dismal half, and I am hoping that the Vols show as much resilience as the markets and don't have their correction just yet! Have a good weekend and enjoy what looks to be a beautiful Tennessee weekend.