

BILLS ASSET MANAGEMENT

BAM MARKET NOTE

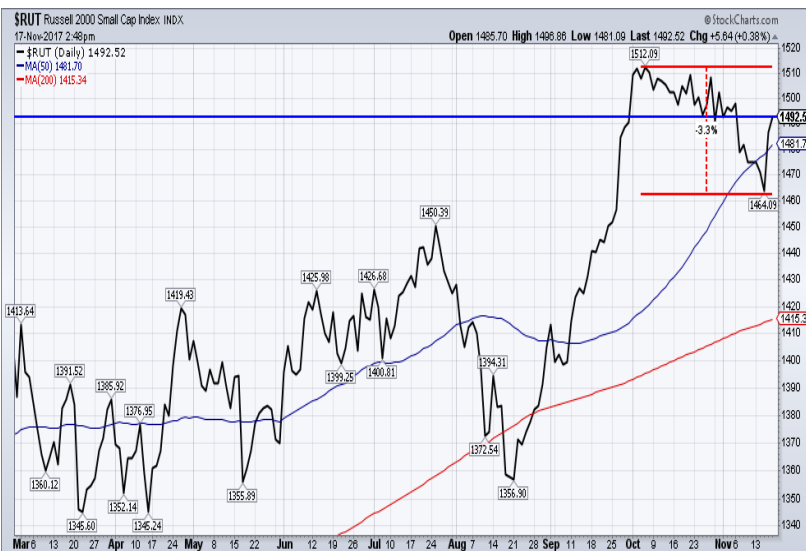
NOVEMBER 17, 2017

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The S&P had traded down for 5 straight days before yesterday's rally. While the decline was modest, it was enough to get the attention of a market not used to anything but a slow move upward. It makes one wonder how the market will react when the inevitable (and entirely normal) 3-5% decline befalls the market. Yesterday's bounce provided some relief from the slow decline but it is far from clear that any correction is over.



The Russell 2000 experienced a much more concerning decline that started over a month ago. Yesterday's strong rally pushed the index back up to resistance. As you can see, the horizontal line was touched three times before failing on November 6th. Currently, the index is right at resistance. A break to the upside could mark the end of this minor correction and set the stage for an end of year rally. Often, small caps are among the best performers in the end of year period of strength. Small caps are showing relative strength today as its rally is continuing while the other major indices are giving back some of yesterday's gains.

Our Point

The concerns from last week remain but have been alleviated to some degree. High yields had a big bounce yesterday to forestall their recent decline. HYG, one widely following high yield ETF, is holding its gains today but it will be important to see if it can continue its recovery into next week. As noted above, small caps also bounced and are on the cusp of breaking to the upside again. If both high yields and small caps rally together, it will be difficult for the rest of the market not to follow suit. We are not out of the woods yet but things are looking a little better today than they were last Friday. Several of our positions were nearing the points where our stop losses would kick in. However, yesterday's rally bought them some time as all of our holdings enjoyed significant gains. We are a little cautious in the near and long term but the stage is set for at least another leg upward into year-end. Next week will be a short trading week due to Thanksgiving with the markets closed Thursday and only open ½ of Friday. The shortened holiday week has a traditional upward bias so we could be embarking on another up-leg come the end of trading next Friday. Absent any significant market movements, there will not be a market note next week. We hope you enjoy friends, family and lots of turkey this Thanksgiving.

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