Weekly Market Review

***e*Research Corporation** is pleased to provide a review of the markets by Eddy Elfenbein of **Crossing Wall Street**.

Mr. Elfenbein introduces his commentary with a quote from Warren Buffett.

"Forecasts may tell you a great deal about the forecaster; they tell you nothing about the future."

Read Mr. Elfenbein's analysis and market comments on the following pages.

Information about **Eddy Elfenbein** and **Crossing Wall Street** is provided at the end of this article. You can also learn about **Crossing Wall Street** by going to its blog website at: http://www.crossingwallstreet.com/.

***e*Research** was established in 2000 as Canada's first equity issuer-sponsored research organization. As a primary source for professional investment research, our Subscribers (*subscription is free!!!*) benefit by having written research on a variety of small- and mid-cap, under-covered companies. We also provide unsponsored research reports on middle and larger-sized companies, using a combination of fundamental and technical analysis. We complement our corporate research coverage with a diversified selection of informative, insightful, and thought-provoking research publications from a wide variety of investment professionals. We provide our professional investment research and analysis directly to our extensive subscriber network of discerning investors, and electronically through our website: www.eresearch.ca.

Bob Weir, CFA
Director of Research

January 6, 2017

Crossing Wall Street: Weekly Market Review

by Eddy Elfenbein

BW: We have taken only an extract of Mr. Elfenbein's latest weekly article. If you wish to read the entire article, which includes stocks in his recommended portfolio, there is a link provided below.

The 2017 trading year is underway, and so far, it's been a decent one for Wall Street. On Wednesday, the S&P 500 came within inches of setting an all-time closing high. Hopefully, this will be a pleasant change from last year, when Wall Street had one of its worst starts ever.

Earlier this week, the Federal Reserve released the minutes from its last policy meeting, the one at which it decided to raise interest rates. I still believe the Fed is getting way ahead of itself on the need for higher rates. I suspect that as the year goes on, the Fed will gradually pare back its rate-hike plans. I will have more on this in a bit.

With the start of the new year, we have Q4 earnings season coming, starting next week. This should be a good one for Wall Street. Apart from the reports themselves, I will also be curious to see what companies have to say about 2017. For the first time in a while, the Street appears optimistic.

In this week's *CWS Market Review*, we will take a look at the recent jobs report, plus we will preview next week's Federal Reserve meeting. For the second time in a decade, the Fed looks set to raise interest rates. Does the Fed have plans to kill the Trump Rally.

Q4 Earnings Season Looks To Be A Good One

Last Wednesday, the Federal Reserve released the minutes from last month's FOMC meeting. These minutes got a lot of attention because this was the meeting in which the Fed decided to lift interest rates. Interestingly, the minutes showed that the rate-hike decision was not terribly controversial. Instead, the committee was concerned about the possibility of the economy surging ahead this year with the aid of fiscal stimulus.

When the Fed made the rate-hike decision last month, it also released its forecasts for the next few years. The members expect to hike interest rates three times this year, plus three

times next year and three more in the year after that.

Not to put too fine a point on it, but that is nuts. That is just my opinion, of course. As always, I like to keep an open mind about these things. As I see it, maybe the Fed will hike one or two times this year. I just do not see the pressure out there for tighter money.

We will learn more later today (Friday), when the government releases the December jobs report. You have probably noticed that the monthly jobs reports have decreased in significance over the past several months. That is because they have mostly confirmed that the trend of the last few years is still firmly in place.

The consensus on Wall Street is for an increase of 175,000 non-farm payrolls (BW: it was 156,000), and for the unemployment rate to tick up 0.1% to 4.7% (BW: it stayed the same at 4.6%). Both sound about right, but what is becoming more important is the wage-growth numbers. There have been encouraging signs of wage growth, but we need to see more. Higher wages mean higher sales for companies and, further down the road, that means higher prices for shoppers. We are still quite a ways away from that scenario.

Fourth-quarter earnings season is set to begin next week, and it should be a decent one for the overall market. For the third quarter, the S&P 500 finally snapped its seven-quarter streak of declining operating earnings. The index made $28.69 per share (that is the index-adjusted number), which was a 13% increase over the year before.

For Q4, analysts currently expect operating earnings of $30.48, which would be a 30% increase over the year before. Of course, that big increase is due to a poor environment in late 2015. During most of 2016, analysts gradually hacked down their estimates for Q4. They started off 2016 very optimistically. One year ago, they were expecting Q4 op earnings of $33.35. That has been cut back by 8.6%.

If analysts are right about Q4, and I suspect they are very close, that would mean the S&P 500 earned $108.84 per share in 2016. Two years ago, Wall Street had been expecting over $135 per share for 2016. The analysts were not even close. Still, 2016's total is a decent increase over the $100.45 from 2015, but it is below 2014's $133.01.

A lot of the earnings recession was due to the pain in the energy sector, and that caused a pullback in capital expenditures. After all, when oil is crashing below $30, no one is in a hurry to start new projects, and that has a ripple effect. Now that oil is back above $53, people feel a little different.

Wall Street expects 2017 operating earnings of $130.92 per share. I expect that to come down some.

Setting that aside, it means the S&P 500 is currently going for 17.3 times this year's estimate. I just don't see that as being a bubble.

One interesting aspect of the recent earnings recession is that it did not hit dividends terribly hard. That was probably a sign, and an accurate one, that the earnings drop would soon pass. Last quarter was the 27th quarter in a row of dividend growth for the S&P 500.

For Q4, dividends rose by 5.95%. Interestingly, Q4 had the fastest growth rate of the year. For all of 2016, dividends rose 5.53%. This was the seventh calendar year in a row of rising dividends.

Over the last seven years, dividends have grown at an average rate of 10.72% per year. So, if the last seven years have been a bubble for stocks, then they have been a bubble for dividends as well. However, that is an odd definition of a bubble.

Investors sometimes overlook the importance of dividends. Consider these stats: From the market's closing low on March 9, 2009 until Thursday's close, the S&P 500 gained 232.03%. But the S&P 500 Total Return Index, which includes dividends, gained 292.19%. The lesson is that reinvesting your dividends is a powerful tool for long-term investors.

Should We Fear the Strong Dollar?

Since Election Day, the U.S. dollar has been on a tear. That really is not a surprise, since our Fed is raising rates while other countries are still struggling with rock-bottom ones.

Before the election, one U.S. dollar could fetch 18 to 19 Mexican pesos. Now it gets you 21.4. It got so bad that the Mexican Fed jumped in on Thursday to save the peso. The situation is similar in Europe. There is a good chance that the dollar could soon reach parity versus the euro for the first time since 2002.

But the really interesting action is happening in China, where the government lets the yuan float freely—*kinda*. It floats within very narrow bands. But, outside of China, the two currencies trade freely.

Here is where it gets interesting, because the offshore yuan usually does not stray too far from the official rate. Lately, it has. Just as in Mexico, the Chinese central bank stepped in to shore up the yuan, which caused the currency to jump against the dollar. The *WSJ* reported that "the rate that banks charge each other in Hong Kong's overnight lending market leapt from 17% to 38%." It is as if the PBOC kneecapped the shorts.

The official stats are not too reliable, but it appears that the Chinese economy is slowing down. Whether it will be an orderly slowdown or a train wreck is an open question. Coupled with this is that money is flowing out of China. The government is trying to halt outflows but, as governments tend to do, they are trying to stop the effect, and not address the cause.

The concern is that China will devalue the yuan. In August 2015, the government shocked the world when it devalued. Of course, President-elect Trump has been very vocal about our trade deals with China.

I want to be careful not to overstate the issues, but the strong dollar could become an issue for investors. A big change in forex markets acts almost like a magnet near a compass—it throws off all the readings. Also, a strong U.S.A. pretty much affects everything everywhere. The rising greenback could sink emerging markets and punish domestic manufacturing. It could also shelve any plans by the Fed to keep raising rates. Several companies have also warned investors about the impact of a rising dollar. I don't want to alarm you, but this issue is not over, and it could become a major theme in 2017.

Next week, we will get the consumer-credit report on Monday. Wholesale inventories are on Tuesday. Initial jobless claims are on Thursday; we nearly set another multi-decade low this week. Then, on Friday, is the retail-sales report. It will be interesting to see some hard data on how strong holiday shopping was.

Be sure to keep checking the blog for daily updates, and I will have more market analysis for you in the next issue of *CWS Market Review*!

- Eddy

#####

BW: In the rest of the newsletter, Eddy reviews the earnings announcements of the companies on his Buy List. You can read about them and the entire article by clicking on the following link:

http://www.crossingwallstreet.com/archives/2017/01/cws-market-review-january-6-2017.html

Named by CNN/Money as the best buy-and-hold blogger, Eddy Elfenbein is the editor of Crossing Wall Street. His free Buy List has beaten the S&P 500 for the last six years in a row. This email was sent by Eddy Elfenbein through Crossing Wall Street.

BW: Information on Eddy Elfenbein and Crossing Wall Street follows on the next page.

ABOUT THE AUTHOR

Welcome to Crossing Wall Street

I started this Web site to help individual investors. I have to admit that I *love* the stock market. I think I must be an addict. In my opinion, the stock market is one of the greatest inventions in history. The stock market is simply the most consistently successful way to make money over the long term. Even after the financial crisis, stocks have still beaten every asset category over the long haul—bonds, commodities and real estate.

While the stock market may bounce around from day to day, and even month to month, the long-term trend has always been higher. Over the last 35 years, stocks have gone up 35-fold. And since the end of World War II, the stock market is up an amazing 120,000%. I wish I had been around! That was the beginning of an American financial revolution. Today, we're at the beginning of a *global* financial revolution. That is why I think the next 70 years will be even better.

The key to doing well on Wall Street is actually very simple: Buy and hold shares of outstanding companies. But too many investors never learn this valuable lesson. Or if they do learn it, they learn it the *hard* way. That is where I come in. I want to help investors avoid the mistakes that separate successful investors from those who always find themselves spinning their wheels.

There are lots of pitfalls on Wall Street. From shady companies that are more popular than they are profitable to a mutual fund industry that is more interested in its fees than serving investors. Todayis investors must be careful.

At Crossing Wall Street, I give investors my free and unbiased view of the market. I probably analyze dozens of companies every week. I am always looking over income statements and balance sheets. I've spent several years collecting my list of the best companies to own. This is my current Buy List. I've included a description of each company and its current share price. These are the ones that I make the most effort to follow on the site, but please feel free to ask me my opinion on any stock. I don't receive compensation from any of the stocks I recommend. Also, I don't "short" any of the stocks I criticize. At any time, I may own the companies on my Buy List. All of the information on this site is free and unbiased. I also have a section for Frequently Asked Questions that will help you learn more about Crossing Wall Street.

Please feel free to e-mail me. I enjoy getting feedback from investors. I am happy to give you my opinion on any stock or investing in general. I should warn you that I cannot give out personal portfolio advice, but all other topics are fair game. You can also check out some of my favorite links.

- Eddy Elfenbein

Disclaimer: The information in this blog post represents my own opinions and does not contain a recommendation for any particular security or investment. I or my affiliates may hold positions or other interests in securities mentioned in the Blog, please see my *Disclaimer* page for my full disclaimer.