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 John Maynard Keynes.

"There is a danger of expecting the results of the future to be predicted from the past."

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/.

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Bob Weir, CFA
Director of Research

January 13, 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.

Earnings season is finally upon us. Stocks move for good reasons, and the most important is earnings.

The "Trump Rally" is beginning to look a bit tired. Considering that the Dow has risen 22 times in 26 days, who wouldn't be? The Dow has tried to break 20,000 several times, but it cannot seem to do it. Last Friday, the index came within 0.37 points of busting through…but no such luck. I would not be surprised to see the market pull back over the next few weeks. Nothing major. But just enough to clear out the trend-followers.

In this week's *CWS Market Review*, we will look at what is in store for earnings season. First, let us look at some recent economic news. Small-business optimism just recorded its biggest increase in decades.

(BW: See our posted report on this topic: http://www.eresearch.ca/wp-content/uploads/2017/01/Calafia_011117.pdf.)

Small-Business Optimism Soars

Last Friday, the government reported that the U.S. economy created 156,000 net new jobs in December. That was below the expectations of 175,000 jobs, but it is still largely within the previous trend. Unemployment ticked up to 4.7%. There is still the issue of millions of Americans out of the labor force. Fortunately, though, the labor-force participation rate rose by a tad. There are, of course, major demographic trends at play in that figure. But, on balance, we can say that the jobs market is improving.

The best news in the jobs report had to do with average hourly earnings (AHE). For December, AHE rose by a healthy 0.4%. That is a good number, and it is good news for us investors as well. That is future revenue for our companies. Over the last year, wages have increased by 2.9%. That is ahead of inflation, but not by much. Still, it is good to see

American workers finally get a real raise.

One of the more interesting reports we got this week was that small-business optimism soared in December. Actually, that understates it. Small-business optimism skyrocketed. It had its best monthly increase since 1980. The index jumped 7.4 points to 105.8, which is the highest since 2004.

Obviously, a good deal of that is political. Small-business people lean right, so there is certainly comfort for them in a new administration. But I would not be quick to dismiss this as solely political. Optimism, especially newfound optimism, is an important ingredient for an expanding economy. These will be the people who will approve new construction plans or give the go-ahead to hire new employees.

There is an erroneous belief that economic expansions must die of old age. I am not so sure about that. Australia has not had a recession in 25 years. Even eight years into our expansion, I think there are many reasons to believe that growth will accelerate this year.

Last Friday, the Dow reached an intra-day high of 19,999.63. The index came within a hair's breadth of 20,000. Of course, it is an arbitrary number, and an even more arbitrary index, but it is an important milestone for people to see. It is the kind of thing that people who do not follow the markets will notice. To add some perspective, the Dow first closed above 200 on December 18, 1927, and Dow 2,000 fell on January 8, 1987. (Is there something about years ending in 7?)

Quietly, the market has slipped into a narrow trading range over the past month. In fact, for the Dow, this has been one of the narrowest ranges on record. Since December 9, the index has finished every trading day somewhere between 19,756 and 19,974. That is 22 days locked in a range that is a little over 1%.

The Nasdaq, by contrast, had its first down day of 2017 on Thursday. The S&P 500 Tech Index got to its highest point since September 2000. The index is still below its high from nearly 17 years ago. The coming earnings season will be important because we will be able to see if companies have witnessed any real improvements in their sales and earnings.

Next week, the stock market will be closed on Monday in honor Dr. Martin Luther King, Jr.'s birthday. On Wednesday, we will get the CPI report for December. It will be interesting to see if there have been any signs of incipient inflation. I doubt it, but will reserve judgment until we see the data. Also on Wednesday, the Fed will release its "beige book," which offers a detailed overview of the economy.

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

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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-13-2017.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

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