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 the following quote from Charles Dow.

"Pride of opinion has been responsible for the downfall of more men on Wall Street than any other factor."

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

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May 19, 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.

Wall Street's deep sleep came to an end this week. The S&P 500 had a run of 16 straight days in which it never traded outside a band that was a little more than 1% wide. Then, on Wednesday, the index suddenly dropped 1.8% for its biggest plunge all year.

Of course, that drop was from an all-time high close, so we can hardly say that there is been a lot of pain on Wall Street. The major indexes are still having a very good year, and it is only May. The move was such a shock since everything had, until then, been so complacent.

But here is the key, Wednesday's drop was not spread out evenly. Many of the stocks that characterized the Trump Rally, like the big banks, fell the most. At the other end, defensive stocks fell the least.

What does this all mean? There has been a lot of talk that this is Wall Street's verdict on President Trump. I don't buy that at all. What is really going on is that Wall Street is suddenly getting cold feet about another Fed rate hike. I have been warning that a rate increase next month would be a mistake. Some folks, apparently, are coming around to my side. I will have more on that in a bit.

Wednesday's Selloff Was about the Fed, Not Trump

In recent issues, I have said that it would be a mistake for the Federal Reserve to raise interest rates next month. The economy, sadly, just is not strong enough. Since I am not a member of the Federal Open Market Committee, my views on the matter don't count for much. But this week, the world may have shifted in my direction.

According to the latest futures prices, the market is placing 73.8% odds on a rate increase in June. That is high, but it was even higher not too long ago. That is why Wednesday's selloff caught my attention.

The worst performers were big banks and financial institutions. The best performers were high-dividend stocks like REITs and utilities, with some consumer cyclicals.

Whenever you see banks and dividend stocks move in opposite directions like that, you know that the market is arguing about the direction of short-term interest rates. Banks want short rates to go up. Dividend-payers want them to go down. When it is a big drop like this, it is almost as if the market is begging the Fed for some relief. I don't know if they are listening.

What makes this more interesting is that the economic news has been getting a little better recently. Still not enough to justify a rate hike, in my opinion, but we must consider all the evidence. For example, on Monday, the industrial production report was quite good. Economists had been expecting industrial production to show a 0.4% rise for April. Instead, it was up a full 1%. That is the biggest increase in three years. Importantly, it is for the month of April, which is in Q2.

A few weeks ago, we learned that the U.S. economy grew by a meager 0.7% for Q1. That is pretty bad. Next week, we will get an update. But now we are starting to get a few clues for what the Q2 numbers will be like. The Atlanta Fed has its GDPNow forecasting tool, which says that Q2 GDP is currently tracking at 4.1%. I have to be honest: that shocked me. I hope they are right, but we still need to see more data.

Last Friday, shortly after I sent out the newsletter, the government released the inflation report for April. If you recall, the report for March was light—very light. Core inflation had its steepest drop in 35 years. The numbers for April were higher, but still quite subdued. Headline inflation rose by 0.17% for April, and core inflation was up by 0.07%. Except for March, that is the softest in four years. No matter how you look at it, inflation just is not out there.

What is interesting is that if the Federal Reserve were doing nothing, then it would, in effect, be tightening. Stable rates plus falling prices means higher real rates, and that is what puts the brakes on the economy. That is what has been happening, and it needs to stop. Don't believe the hype that the stock market is revolting against Trump. It is upset with a short-sighted Fed policy. The sooner the Fed changes course, the better.

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/2017/05/cws-market-review-may-19-2017.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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