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 Seth Klarman, an American investor, hedge fund manager, and philanthropist. He is known as a value investor.

"The single greatest edge an investor can have is a long-term orientation."

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

May 26, 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.

On Thursday, the S&P 500 closed at yet another all-time high. The index is already up 7.8% this year, and we are still in the merry month of May. Last week, the market had a slight jitter, and I thought the recent quiet period might be coming to an end. Not so.

On Wednesday, in fact, the S&P 500 was on track for one of its narrowest days (meaning the difference between the daily high and low) in decades, but an afternoon surge put that off. Last week, Wall Street was alarmed when the Volatility Index jumped above 16. But once again, the index collapsed. On Thursday, the VIX closed at 9.99. That is only the seventh sub-10 close in the last 20 years.

It is as if the low-volatility, slowly upward-trending market is reasserting itself after a momentary disruption. No matter what happens, we keep returning to a market of micro changes that are mostly rising.

I want to discuss this week's Fed minutes, and what the central bank plans to do with its enormous balance sheet. I still think the Fed is making a big mistake by raising interest rates next month. Let us hope cooler heads prevail.

What Will Happen to the Fed's $4.5 Trillion Balance Sheet

On Wednesday, the Federal Reserve released the minutes of its last meeting. The minutes revealed largely what Wall Street had expected, and I feared. The Fed acknowledged the weak spots in the economy, but it still sees the need for another rate hike. I just don't get it.

If the rate hike happens, and I am afraid it will, then this would be the fourth hike of this cycle. The Fed seems to believe that the sluggishness in the economy during the first quarter will soon pass. I sincerely hope they are right, but I have not seen the evidence just yet. I think the Fed has become overly concerned about the idea of being "behind the curve." Chairwoman Yellen has said that if we don't raise rates beforehand, then we will require faster rate increases later. What is so awful about that?

I should be clear that one rate hike probably will not sink the economy. Even after a fourth hike, real interest rates will still be quite low by historical standards. The facts are clear: wage growth is iffy, inflation is not a problem, and there are few signs of an economy overheating.

I like to keep an eye on the spread between the two- and ten-year Treasury yields. Over the last 30 years, whenever the spread turns negative, the economy has soon become bad. The current spread suggests the Fed can raise rates four more times. That would be three after a rate hike in June (if it occurs). I suspect that means that a rate increase would not hurt the economy, but it decreases our breathing room for further hikes.

What was interesting about these Fed minutes is that they give us a preview of what the Fed intends to do with its massive balance sheet. Let me rephrase that: the Fed's gigantic, massive, world-devouring, $4.5 trillion balance sheet. The central bank has been reinvesting the proceeds of its bond holdings into still more bonds. The plan presented at the FOMC meeting is to pull the plug on all that reinvesting. In other words, just let the current holdings mature.

According to Binyamin Appelbaum at the *New York Times*, the Fed "would begin by keeping a fixed amount of the monthly proceeds and then increase the cap every three months until proceeds were no longer being reinvested." What is the downside of this? Probably not much, assuming the economy avoids a recession. That is even more reason why the Fed should hold off raising interest rates next month.

The stock market will be closed on Monday for Memorial Day. I am taking some time off, so there will be no issue next week. The Memorial Day weekend traditionally marks the beginning of summer. On Tuesday, we will get the latest reports on personal income and spending. On Thursday, we will get the ADP payroll report, plus the ISM report for May. Then Friday is Jobs Day, when we will get the latest employment figures for May.

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-26-2017.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