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 *Bernard Baruch*:

"The main purpose of the stock market is to make fools of as many men as possible."

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

Note: All of the comments, views, opinions, suggestions, recommendations, etc., contained in the Crossing Wall Street articles, and which is distributed by *e*Research Corporation, are strictly those of the Author and do not necessarily reflect those of *e*Research Corporation.

August 25, 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.

Mad truth, Bernie. The market does fool-making exceedingly well. Consider the last few months as Wall Street has easily brushed aside concerns about North Korea, President Trump, a weak dollar, the Fed, Tax Reform, you name it, Wall Street's been as calm as a clam.

Let us look at some facts. The Dow Jones Industrial Average has now gone 85 days in a row without a 1% daily gain. That is the longest such streak in over a decade. Bear in mind that, historically, a 1% up-day is about as common as you can get. The S&P 500 still has not had a 3% draw-down since the election. That means, going by each day's close, the index has not registered a 3% total decline in more than nine months.

Despite the market's tranquility, there is still a lot of news.

The Weak Dollar Is Boosting Profits

We do not have every last number in yet, but we are very close, and it appears that the S&P 500 had operating earnings of $30.73 for Q2 (that is the index-adjusted figure). That is an all-time record. It also represents an increase of 19.6% over last year's Q2.

This is very good news because there had been growing concerns that the corporate sector was in danger of a slowdown. Instead, this was the fourth quarter in a row of growing earnings. Before that, the S&P 500 went through a nasty earnings recession that lasted seven quarters. What is important to understand is that earnings are being helped by expanding profit margins. That is a good sign. For Q2, operating margins topped 10% for the first time since 2014.

The second quarter was also notable because earnings estimates were not severely slashed before earnings season. You will see that a lot. Estimates will plunge low enough for the results to barely claim an "earnings beat." Lower the bar far enough so you can step over it. It is true that earnings estimates almost always start out too high, but the results for Q2 were only 4.7% below the estimate from the beginning of the year. That is pretty good. Right now, the estimates for Q3 are only 2.7% below where they were at the start of the year. The slashing-estimates game seems to have passed.

So far, 71% of S&P 500 companies have beaten expectations for Q2. Less than 7% of tech stocks missed on earnings. That is impressive, but the biggest reason for the earnings resurgence is the energy sector. The energy sector went from earning $42.94 per share in 2014 to losing $13.71 in 2015. (Again, these are index-adjusted figures but, in this case, it is to the S&P 500 Energy Index.) That threw the entire earnings picture for the S&P 500 out of whack. Now, energy profits are back, and the overall picture looks much better.

We are still not quite two-thirds of the way through 2017, but it looks like the S&P 500 is on pace to make about $125 to $130 per share this year. The S&P 500 is going for about 19 times this year’s earnings, and probably about 17 times 2018’s earnings. That is elevated, but nothing crazy.

What is happening is that we have gone from a period where the strong dollar was distorting corporate earnings. Now, the weak dollar is helping the bottom line. It comes down to this: Europe’s economy is trailing by about three years. All of what Mr. Draghi is doing, and has been doing, comes largely from Mr. Bernanke’s playbook.

A few years ago, we were growing, and the Europeans were stuck in a rut. As a result, the dollar rallied, and rates in Europe went negative. Now, Europe is much better, so the euro is up and the dollar is down. In fact, Draghi is talking about how he wants to exit all that yucky QE and ZIRP stuff. I don’t blame him. If there is any big news from Jackson Hole this weekend, it will probably be from Mario instead of Janet.

The key takeaway is that the investing environment continues to be favorable for investors. But remember that the weak U.S. dollar is being a big help for us.

That is all for now. Next week is the final week of trading before the Labor Day holiday. On Wednesday, the government will revise the Q2 GDP figure. The initial report showed growth of 2.6%. On Friday, the Labor Department will release the August labor report just ahead of the Labor Day weekend. I will try not to “belabor” the point. The last report showed unemployment at 4.3%, which tied a 16-year low.

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/2017/08/cws-market-review-august-25-2017.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.