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 *Peter Lynch*:

"Investing without research is like playing stud poker and never looking at the cards."

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

Crossing Wall Street
Your Guide to Financial Success
Hosted by Eddy Elfenbein

September 8, 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.

Tomorrow will mark 8-1/2 years of the great bull market. On March 9, 2009, the S&P 500 reached its closing low of 676.53. The previous Friday, March 6, the index touched its sinister-sounding intra-day low of 666.79. To give you an idea of how bleak things were, that morning, the government reported that the unemployment rate touched a 25-year high, and the nonfarm payrolls report for February came in at -651,000. Yikes!

Things are quite different today. Going by Thursday's close, the S&P 500 Total Return Index has gained 332.64% in this bull market. That's enough to turn every $1 into $4.32. This has been one of the longest and strongest bull markets in history, but what's fascinating is how hated it's been. Some people just cannot stand to see the indexes rise higher and higher.

We are constantly told that it is a reckless bubble that is all about to crash. Or it is all due to manipulation from the Fed, and it is all about to crash. Please. Predicting that the world is about to end is one of the favorite pastimes on Wall Street. Still, the bull marches on. In fact, this year may turn out to be the lowest year on record for the stock market's volatility.

If there's a golden rule for long-term investing, it is that betting on disaster is always overpriced, and betting on "it will all work itself out" is always a bargain.

What's Next for the Federal Reserve?

Stanley Fischer, the vice-chair of the Federal Reserve, announced this week that he is stepping down next month. This brings us to an unusual moment for the Fed, since there will be four vacancies on the Federal Reserve Board. By law, the FRB has seven slots. By my math, this means that the labor force participation rate for Fed governors is only 43%. It will soon go even lower, since Janet Yellen's term as Fed chair ends in February. This gives President Trump a big opportunity to put his stamp on the Fed. Officially, Trump has not ruled out reappointing Janet Yellen to another term as Fed chair, but that probably will not happen. She recently defended some of the post-crisis financial regulations which Trump has promised to repeal.

Quick side note: The appointments to the Fed and of the Fed chair are separate presidential appointments. So, if President Trump doesn't reappoint Yellen as chair, she would still be a Fed member. However, it is generally assumed she would resign if she were no longer Fed chair.

Fed watchers had assumed that Gary Cohn was Trump's top choice to replace Janet Yellen. But, this week, the Dow Jones reported that it is "unlikely" Cohn will get the nod, due to his criticisms of the president's response to the terrible events in Charlottesville. Jake Tapper tweeted that one White House source said that Cohn was more likely to get the electric chair than the Fed chair. Ouch.

So who is next for the position of Fed Poobah? A few names have been thrown around. I would guess that John Taylor at Stanford would be a front runner. He is widely known for the "Taylor Rule," which is a guide-line for determining where interest rates should be. Frankly, I am a skeptic on these rules. They are great in theory, but I am not sure how they work in real time. But there is no doubt that Taylor is a highly qualified choice. Some other contenders are Kevin Warsh, Glenn Hubbard, and Jerome Powell.

President Trump has described himself as a "low-interest-rate person," but I doubt he is very ideological on monetary matters. This is an important time for the Fed. The central bank wants to unwind its gigantic balance sheet at the same time that it is looking to raise interest rates. It is not an easy task. With low rates, that weakens the dollar. The euro is near a 33-month high versus the greenback.

I have been critical of the Fed lately, because I think they have moved too quickly on rates. Lately, however, I think the Fed is coming around to my side (more on that in a bit). I think the Fed will remain on a pragmatic and accommodative course over the next few years, and that is good for investors.

The U.S. Economy Is Gaining Strength

Speaking of the Fed, last Friday we got the August jobs report. It was on the weak side, but nothing too dramatic. Last month, the U.S. economy created 156,000 net new jobs. The numbers for June and July were revised downward. The unemployment rate ticked up to 4.4%, but it is still near a 16-year low. For the most part, the U.S. economy has created an average of 200,000 jobs a month every month for the last seven years. The numbers have not deviated very far from that trend.

While this report was not that bad, I think it finally clued in the bond market that the Fed is not going to move on interest rates anytime soon. The equation is simple. When someone asks, “Are stocks cheap?,” the answer is always, “Compared with what?” (Yes, we answer questions with questions.) That is why interests are so important to equity valuations.

Last Thursday, the government released personal-income and spending numbers for July. That report includes the PCE price index, which is the Fed’s preferred measure for tracking inflation. The core PCE number for July rose by just 0.1%. It was the same in June. For the past year, core PCE is up 1.4%. In other words, inflation is hardly a problem. Next week, we will get the CPI report for August, and I expect to see much of the same.

With so little happening with inflation the Fed may be convinced to back down. The FOMC is set to meet again on September 20, and I strongly doubt they will do anything. The futures market thinks there is only a 26% chance the Fed will raise rates before the end of the year. I would say that is about 20% too high. The Fed funds futures are now priced to show a 54% chance of no rate hike in the next 12 months. That is a stunning reversal of sentiment. Late last year, the Fed was calling for three hikes this year, plus three more in 2018 and three more in 2019. All that is gone now.

One potential roadblock for the economy could be the impact of Harvey and Irma. We don’t know yet the full measure of these events. On Thursday, we got our first glimpse of what Harvey could mean. Initial jobless claims soared to 298,000. That is a rise of 62,000. As a metric, initial jobless claims have the benefit of being early, but that is at the expense of being noisy. We saw similar jumps with previous storms.

The recent economic numbers look quite good. Q2 GDP came in at 3%. Last week, we learned that personal income rose by 0.4% in July while personal spending rose by 0.3%. That is quite good. Also, Friday’s ISM report was the best in six years. This suggests the economy got off to a strong start for Q3. The Atlanta Fed’s GDPNow model now says that Q3 GDP grew by 3.3%. I am wary of such models, but I hope that number is right.

That is all for now. There is not much in the way of economic news next week. I will be keeping an eye out for Wednesday’s report on the Federal Budget. The deficit is shaping up to be worse than originally thought. This comes after years of decreasing deficits. On Thursday, we will get the CPI report for August. Inflation has been quite tame for the last few months. Let us see if that trend continues.

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/2017/09/cws-market-review-september-8-2017.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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