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 *Coreen T. Sol, CFA*, who is a portfolio manager with more than 20 years' of experience in private wealth management, and is author of the book, Practically Investing: Smart Investment Techniques Your Neighbour Doesn't Know (2014):

"Fear is an emotion, not a stock indicator."

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

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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.

After eight and a half years, the stock market is still hitting fresh all-time highs. The Dow, S&P 500, and Nasdaq all broke out to new highs this week.

Here is a cool stat: since the election, the S&P 500 has added *$2 trillion* in market value, and half of that is due solely to the tech sector. The much-hated rally marches ever onward.

The S&P 500 even came close to breaking through 2,500 for the first time in its history. Thursday's intra-day high was 2,498.43. For some context, the S&P 500 first broke 25 in 1929, and it smashed 250 in 1986.

The historically minded observer may have noticed that those milestones came just before some unpleasantness. I still think we are pretty safe from any nasty downturns. Inflation, interest rates, and unemployment are low, and the economy continues to hum along.

In this week's *CWS Market Review*, I want to focus on a key aspect that has been helping the market this year, and that is the weak U.S. dollar. This is a crucial factor, and it is not widely understood. The currency markets can have a big impact on the stock market, and I want to explain what is happening.

The Weak-Dollar Rally

The U.S. dollar has not been in a good way this year, and that is actually a good thing. Look at some of the numbers. Earlier this year, a British pound was worth $1.20. Now it is going for $1.34. The €uro has gone from $1.05 to $1.19. The €uro rally may have further room to run. The *Financial Times* recently reported that "speculators were holding the biggest net long position on the €uro against the dollar since May 2011."

This is important to understanding what is happening in today's market. Despite a good year for stocks, both the Dow and S&P 500 would be down for the year if they were priced in euros. The slumping dollar has not only helped us rally, but it has affected the nature of the rally. Let us dig into this some more.

Right now, the economy of the United States is out of sync with much of the developed world, especially Europe. The economy in Europe is basically where we were two or three years ago. Only now are things starting to look up for the Old World. This week, we learned that the British unemployment rate dropped to a 42-year low. Unemployment in Germany is the lowest since reunification. Even France is improving.

As a result, there is a growing belief that Mario Draghi and the European Central Bank will pull back on their "kitchen sink" strategy for monetary policy. On top of that, the plan for more rate hikes in the U.S.A. seems to have faded. Capital naturally flows to where it is treated best and, lately, that has been away from the USA.

Now here is where it gets complicated. Normally, when we see the dollar slump, it often means that commodity prices are rising. In turn, that is good for commodity stocks. Indeed, that has been the case, as the **S&P 500 Materials ETF** (XLB) has done quite well this year, especially in the last six months. Did you know that Alcoa is up nearly 60% this year? That is more than Apple, Facebook, Google, or Amazon.

But what is interesting is that energy stocks have not joined in the rally. The energy sector got slammed in 2014-2015. While last year saw a modest recovery, this year has been more of nothing. OPEC is even talking about extending its production cuts. Exxon and Chevron are both down for the year.

Normally, we see materials and energy stocks behaving somewhat alike. Not this year. Why? That is hard to say. It may reflect an emerging global recovery that has skipped over the energy patch. Nearly every kind of metal has been booming. Zinc recently touched a 10-year high. Copper has had a strong year as well (except for a nasty correction this past week). Aluminum is up as well. And, for the goldbugs, gold is up smartly this year.

This tells me that there's demand for industrial metals, which means there is a demand for industry. For example, the homebuilders are having a good year.

We are seeing a similar effect happening in defensive stocks. Health-care and consumer staples normally tack each other fairly well, but not this year. It has been a good year for health-care stocks.

Especially weak lately has been the financial sector. Typically, financial stocks rally when short-term interest rates rise. Or, more accurately, the hope for higher short rates rises.

Financial stocks soared after last year's election, but have not done much of anything since then. August was an especially bad month for financials.

The tech sector has also been very strong this year. The **S&P 500 Tech Sector ETF** (XLK) is now up 22% this year. Many of the tech stocks have a global reach, so the weak dollar is a positive.

The weak dollar has also followed the small-cap sector lower. Both peaked after the election late last year, and both have drifted lower this year. This may be having an effect on the market's appetite for risk. With volatility so low, there is not much room for action for excitable day-traders. As a result, this may be pushing them towards more extreme markets, like bitcoin. I cannot be positive, but there may be a direct relationship between the stock market's calmness and bitcoin's frenzy. The virtual currency is down by one-third in the last 12 days.

What to do now: Wall Street is largely in a state of limbo until Q3 earnings season begins in another month. The recent economic numbers look good. The Fed may even be leaning towards a December rate hike. (I hope not, but it is possible.)

It is important for investors not to be scared out of this market. The fundamentals are strong, but the market is always vulnerable to a near-term hit. I also think it is possible that a dollar rally could cause an internal market rotation.

That is all for now. The Federal Reserve gets together on Tuesday and Wednesday of next week. I don't expect them to make any interest-rate moves, but there could be signals about their plans for December. The Fed's policy statement will come out at 2 pm ET on Wednesday. After that, Fed Chairwoman Janet Yellen will answer questions at a press conference.

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-15-2017.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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