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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 Jesse Livermore:

"They say you never go broke taking profits. No, you don't. But neither do you grow rich taking a four-point profit in a bull market."

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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December 15, 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.

This week, the Federal Reserve decided once again to raise interest rates. True, interest rates are still quite low, but a lot of folks thought these hikes were a long way off (including me). Now they have really happened.

The Fed also released its economic projections for the next few years. They see more rates coming next year (call me a cautious doubter on that). Remember, the environment for stocks will remain favorable as long as rates do not get too high. We are not there yet, so stocks are still good.

Speaking of which, the S&P 500 touched another all-time high this week. This continues to be a very good environment for stocks. Strangely, a lot of investors have left the stock market and tried their hands at crypto-currencies. I will give you my thoughts on bitconmania later on.

The Federal Reserve Raises Rates

On Wednesday, the Federal Reserve again raised interest rates. The new range for the Fed funds rate is 1.25% to 1.50%. This was the third increase this year and the fifth for this cycle. As I have said before, I think it was a mistake to raise rates, but I cannot say it is a terrible, horrible, no good, very bad mistake. Two FOMC members agreed with me and dissented from this decision.

In the Fed's statement, they noted the good economic news. They said "job gains have been solid" and "economic activity has been rising at a solid rate." (I think "solid" was the word of the month.)

The Fed also noted that inflation has trended lower in recent months, but they think it will rise to 2%, which is their target rate. I am not so sure about that. This week, we got the inflation report for November and inflation is still well behaved. For November, headline inflation rose by 0.39%, and the "core rate," which excludes food and energy, rose by just 0.12%. In the last 12 months, headline inflation is running at 2.20% while the core rate is at 1.71%. In fact, the year-over-year core rate has barely moved in the last six months. Maybe the Fed is right and low inflation will pass, but I see no signs of it yet.

The Fed also released its economic projections for the next few years. The Fed members are more optimistic on economic growth for next year. In September, they saw GDP rising by 2.1% next year. Now they see it rising by 2.5%. I hope that is right.

The members project three more rate increases for next year. After that, they see two more hikes in 2019 and another one or two in 2020. I should caution that the range of estimates is very diffuse for 2019 and 2020. I don't put much faith in forecasts that far out.

If the Fed's near-term forecasts are right, that will mean that real short-term rates will finally be positive sometime next year. It will probably happen sometime in June. That will end 10 years of negative real rates.

The Fed is right to be optimistic for the economy. This week, we got a very good report on retail sales for November. Hopefully, that is an omen for strong holiday sales. Thursday's initial claims report came very close to being the lowest in more than 44 years.

To sum up: Things are looking very good right now. I am not worried about stocks. The Fed will eventually screw this up, but not for a while.

My Thoughts on Bitcoin

A number of investors have asked me for my opinion on bitcoin. It seems to be the topic of the season. This week, bitcoin futures were unveiled on Wall Street.

I have not commented much on bitcoin for the simple reason that I don't know much about it. Unlike too many people in finance, I prefer to limit my comments on topics I am familiar with.

With that caveat, let me offer some thoughts on investing in bitcoin. I would summarize my position as ranging between agnostic to intrigued on the future for bitcoin as an instrument, yet I am very negative on the idea of bitcoin's place in a sound portfolio.

I want to make it clear that I am not anti-bitcoin in any sense. I welcome the idea of a stateless cyber currency. We need disruption. Bitcoin, and its many competitors, have made truly impressive gains.

I do have a few concerns. At the top is the currency's dramatic volatility. Bitcoin routinely gaps up or down by 10% or more in a trading session. Until that slows down, I think it will limit bitcoin's acceptance in regular daily use.

A currency needs to be two things: a store of value and a medium of exchange. Bitcoin is really good at the former but not so hot at the latter. This needs to change. I am also concerned about the amount of fraud and theft. Of course, this can happen with any currency, but the problem seems especially acute with bitcoin. Also, a lot of these shady initial coin offerings will not end well. Make no mistake—a lot of crypto-heads understand the challenges and they are working to solve them. We are still early in this game.

I think there is a very good chance that bitcoin will eventually fall by the wayside as rivals, like Etherium, prove to be more durable. Emergent technologies tend to invite intense competition followed by extreme consolidation. Bitcoin is no different.

Now I want to turn to the idea of investing in bitcoin. I have no issue if someone wants to buy a few BTC to be part of the phenomenon. Sure, why not? What I mean to address is the idea of bitcoin's place in a serious investment portfolio. That is nuts.

We have to be up front with the fact that bitcoin is in a very big bubble. Like all bubbles, it feeds on itself and you never know where it will end. I often tell investors that true bubbles are rare. A rising stock market probably is not a bubble. A bubble is when an asset soars for many times what it could possibly be worth. Bitcoin will pop. I just don't know when.

To show you how bananas things are, a biotech company recently changed its name to Riot Blockchain. The shares went from $7 last to month to as high as $33 this week. Now *that's* a mania. A bubble is when something is soaring for no other reason than that it has been soaring. The mania feeds upon itself as investors are afraid of being left behind. That is what is going on now.

I am staying far away from bitcoin. It is a new game, and I admit I don't know the rules (nor does anyone else). Around here, we approach investing like it is a business because that is what it is. When we look at a company, we analyze real things like sales and earnings, but with bitcoin, there is nothing. It is guessing at the breeze. I don't see how anyone can estimate where the price should be right now.

I wish bitcoin well, but it has no part in a long-term investment portfolio.

There are a few economic reports to look out for next week. On Wednesday, we will get the existing home sales report. The last one was quite good. Then, on Thursday, we will get the second update on Q3 GDP growth. The initial estimate was for 3.0% growth which was later revised up to 3.3%. Let us see if it goes any higher.

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/2017/12/cws-market-review-december-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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