Special Market Review

***e*Research Corporation** is pleased to provide a special review of the markets by Eddy Elfenbein of **Crossing Wall Street**.

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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February 5, 2018

Crossing Wall Street: A Special 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.

Well, today (Monday, February 5) was certainly an eventful day on Wall Street. That is why I wanted to send you an update to fill you in on today's action.

Let us start with the important news—there is no reason to make any change to our strategy. There is no reason to get scared and sell.

However, let us look at some of today's damage. It ain't pretty.

The Dow Jones Industrial Average plunged 1,175 points—its greatest single-day point loss in history.

It was a slow build. By 2 pm, the Dow had lost about 330 points, which was making for a bad day, but it was nothing too serious. After that, things got very rough. Over the next hour, the Dow shed an additional 470 points, but that was only the beginning. In the next 10 minutes, the Dow dropped another 700 points.

At its lowest, the Dow was down 1,597.08 points. The previous record point loss was 777 points, so we were more than twice that (I am talking about points, not percent). The NYSE employs a "circuit breaker" where trading shuts down for 15 minutes if the Dow loses 7%. That would have been about 1,800 points today, so we didn't hit it.

By the closing bell, the Dow had lost 1,175.21, for a loss of 4.60%. That was more than the entire Dow was worth in 1984. The S&P 500 lost 113.19, also its greatest point loss ever, for a drop of 4.10%. (Note the unusually wide spread between the two indexes. That was due to a bad day for Boeing. Personally, I prefer the S&P 500.) The S&P 500 also easily dropped below its 50-day moving average. The index has not traded below its 50-DMA since August.

I have been talking about points, but was this the worst day in percentage terms? Please—not even close!

In the last decade, this was the S&P 500's 25th worst day. To be precise, today was not the weird thing. The truly weird thing was the ultra-low-volatility rally that preceded today. Today is not unprecedented. The couple of months leading up to today were.

In the last several newsletters, I have passed along several stats of us going so many days without a 1% drop or consecutive days closing within 3% or 5% of an all-time high. All those stats reflected one thing: our low-volume rally. Now, normal market behavior is returning. The VIX rose 115% today. That is something you don't see every day!

Let us add some context. Even with today's loss, the S&P 500 is still up 7% since Labor Day. For the year, the S&P 500 is down a little less than 1%.

The natural reaction is to ask, "what happened today?" It is frustrating to say this, but this is what markets do. Every so often, things just freak the hell out. We think, X happened, therefore, what caused X? Sometimes, X just is.

There are a few items I can point to, but who knows how large a role they played. For example, this was Jay Powell's first day as Fed chair. Greenspan started on the job a few weeks before the 1987 crash. It is not rational but markets are not wild about change.

I was particularly struck by some activity in the Fed funds futures market. The futures started to signal that a fourth rate hike could be possible this year. That is surprising. I believe the odds got up to about 26%, so possible but not probable. Either way, that is unexpected and that could have helped freak the market out. The very strong ISM Non-Manufacturing report this morning may have given the rate hawks more confidence.

There is not much more to say right now. Expect more volatility. We have a bunch more earnings reports coming this week.

I usually open with a quote, but this time I will close with one of my favorites from Peter Lynch: "The real key to making money in stocks is not to get scared out of them."

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/2018/02/cws-market-review-february-5-2018.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, weare 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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