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 Andrew Carnegie:

*"*There is scarcely an instance of a man who has made a fortune by speculation and kept it.*"*

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

February 9, 2018

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 stock market's slumber came to an end. On Monday, the S&P 500 plunged 4.1% for its biggest loss in more than six years.

But that is not the unusual thing. In fact, a move like that happens, on average, about once a year. Big? Sure. Unprecedented? Hardly.

What is unprecedented was the market *before* Monday. The S&P 500 went an amazing 404 days without a 5% drawdown (meaning, we were never more than 5% from an all-time high.) That had **never happened before**. Ever.

The weird market behavior did not start on Monday. It ended on Monday.

The S&P 500 recovered some lost ground on Tuesday, but dropped a little on Wednesday. Then we got another big leg down on Thursday. The S&P 500 lost 3.75% on Thursday. Two of the three worst days in the market for the last 6-1/2 years happen within four days of each other. Two trillion dollars were erased. Investors got a reminder that stocks do not always play nice.

In this week's *CWS Market Review*, I'll discuss what happened and what you need to do. (Hint: Chill.)

Wall Street Awakens From Its Dream

For nearly two years, stock investing was as dull as can be. I know I mentioned this to you several times, but we barely got any ripples. Sure, there were some minor disruptions like Brexit and the election. But those squalls quickly passed.

The fact is, the stock market experienced historically low volatility.

Not long ago, the Volatility Index dropped below 9! That is really, really, REALLY low. This was combined with a relentless series of new highs. It seemed that nearly every day, stock prices went up—by a teeny, tiny amount.

Last week, we finally felt some ripples. Then, on Monday, the dam burst. The S&P 500 plunged 4.1%. That is certainly a bad day, but it seems much larger because it is such a jolt from the prevailing environment. Consider this stat: From September 6 until the end of January, the market's largest single-day loss was 0.55%. That is puny.

The S&P 500 is now officially in a correction, which is defined as a drop of more than 10%. Since January 26, the S&P 500 has lost 10.16%. This is our tenth correction in the last 20 years. Two of those were full-fledged bear markets (down over 20%). What can I say, this is what markets do.

What To Do Now?

If you have a well-diversified portfolio of stocks, there is no need for you to make any changes. When people get nervous, they flock towards high-quality stocks.

I try to shy away from blaming one factor for the stock market's behavior. But I want to spend some time on one variable that I think has played an important role, and that is the slow bear market in bonds. Since Labor Day, long-term bond yields have climbed steadily higher. On Thursday, the 10-year Treasury bond closed at 2.85%. That is a four-year high. When the 10-year was yielding 1.37%, as it was 18 months ago, the decision to buy stocks is an easy one. But, now that bonds provide stiffer competition, the math changes. While stocks are still attractive, it is not such a no-brainer. The overall environment for business is still quite good. In fact, this earnings season is shaping up to being one of the best in years. The earnings "beat rate" is running at 78%. That is the highest since Q3 2009.

The first quarter may be another good one for profits. During January, estimates were revised higher by 4.9%. On average, earnings estimates are cut by 2.1% during the first month of a quarter. I should add that initial jobless claims are very close to a 45-year low.

We also got a surprisingly strong ISM Non-Manufacturing report this week.

Bond yields are still a long way from being a grave threat for stocks. I have run the numbers and found that stocks out-perform bonds when the 10-year TIPs yield (the inflation-adjusted yield) is below 2.43%. Eighteen months ago, the 10-year TIPs yield was negative, but now it is 0.76%. While yields are higher, they are still a long way from being serious competition for stocks.

I am also concerned that the futures market seems to believe the Federal Reserve will go ahead with three rate hikes this year. There is even a growing chance of a fourth rate hike. That seems very unusual to me. Of course, stranger things have happened. In September, the futures market placed the odds of a March rate hike at 2%. Now it is at 80%.

Let me caution investors to remain calm. We are simply going to experience a little more volatility. This is normal. What we had was not.

Continue to focus on high-quality names. Don't get rattled by short-term moves. Make sure you're diversified.

Next Week

More earnings next week. On Wednesday, there are two econ reports I am looking out for. I want to see if retail sales have been strong since the holiday. We will also see the CPI report for January. So far, inflation has been tame, but there are worries that prices are rising. Then on Thursday, we will get the latest report on industrial production.

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-9-2017.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, 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

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.