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 David Tepper (an American investor, hedge fund manager, and philanthropist):

"Sometimes the hardest thing to do is to do nothing."

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.

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February 16, 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.

Don't be fooled, the storm has not passed. Sure, stocks bounced back this week, and that is nice to see. But mark my words, the bears will be back.

The big news this week, outside the stock bounce, was the CPI report. On Wednesday, we learned that January had the largest increase in "core" prices in nearly 13 years. Is inflation finally on its way back? For now, call me a doubter.

The bond market seems to be taking inflation seriously. This week, the 10-year yield broke above 2.9% for the first time in four years, and the one-year came close to cracking 2% for the first time in nearly a decade. You realize what this means? Things are starting to look…*normal*. Dear Lord! Compared to where we have been, normal is downright strange. Consider that in October 2014, the one-year was yielding a microscopic 0.09%.

Stocks Rally Back but the Storm Has Not Passed

This was the first time in more than six years that the S&P 500 gained more than 1% four times in five days. So far, the S&P 500 has made back half of what it lost. We had nine rough days followed by five good ones.

Still, we have to be aware of a few things. The bears knocked the market hard. That is something they have not done in years. Bears are easily startled, but they will be back—and in greater numbers. The recent low came last Friday, when the S&P 500 bounced off its 200-day moving average. I think it is very likely the index will "test" that support level again. Maybe a few times. That is just how markets work.

The difference between this latest downturn, and the previous drops like Brexit, is that this one involves something far more important to the stock market, which is rising interest rates.

As I have said before, the odd thing was not the market drop. That happens all the time. The odd thing was the long period of very low volatility, combined with very, very low interest rates. Now, rates have been on the rise, and the Fed appears determined to hike rates three times this year. Some Wall Streeters think a fourth increase is a real possibility.

The yield on the one-year Treasury bill is now more than the dividend yield of the S&P 500. Sure, in an absolute sense, yields are still quite low, but they are much higher than they have been in years. The higher yields provide more competition for investors' money vis-à-vis stocks. That puts the squeeze on equity valuations.

We also have to remember that, by most metrics, stocks are on the pricey side. According to the latest numbers, the S&P 500 is going for 17.7 times this year's estimated earnings, and 16.1 times 2019's. This does not portend a crash but, if equity prices flat-line for a few months, it would help bring valuations down.

The higher bonds yields are not just about inflation. Some of the increase is due to the stronger economy. Just look at the yield on the five-year inflation-protected note. It recently hit 0.74%, which is an eight-year high. In an absolute sense, bonds are becoming better values.

Inflation is still a big issue for the bond market. This week, we got the inflation report for January, and it came in above expectations. The headline rate showed prices rose by 0.5% last month. That was the highest jump in five years. The core rate, which excludes food and energy prices, rose by 0.3% (0.349% to be precise), which is the highest increase since March 2005. I will caution you that this is one number. We need to see more data before we can call it a trend.

So, we have a paradox. The stronger economy is lifting profits, which helps stocks, but it is also causing bond yields to rise, which hurts valuations. So what is an investor to do?

The key is to remain calm, and don't let short-term events scare you. I suspect we are going to see more volatility spikes over the next few weeks. If we are lucky, that will give us some very good buying opportunities.

Next Week

The stock market will be closed on Monday for President's Day. (Technically, the NYSE recognizes this as Washington's Birthday and not President's Day.) It is a fairly light week for economic news. On Wednesday, we will get the existing-home-sales report for January. We will also get the minutes from the last Fed meeting. These might contain clues as to more rate hikes this year.

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-16-2018.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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