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 Warren Buffett:

"I made my first investment at age eleven. I was wasting my life up until then."

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

Your Guide to Financial Success

Hosted by Eddy Elfenbein

February 23, 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.

John Maynard Keynes famously described the irrational behavior of financial markets as being the result of "animal spirits." Given the market's behavior during much of 2017, the animals in question must have been snails, wombats, turtles, and sloths.

That all changed a few weeks ago, when the stock market had one of its sharpest corrections in decades. Since then, things seem to have returned to normal, but I am not so sure.

The S&P 500 is still below its 50-day moving average, and I think there is a good chance it will soon see more dips. In this week's *CWS Market Review*, let us look at how higher interest rates are impacting the stock market.

How the Market Is Stuck in the Middle with You

Unlike previous market breaks, the recent one was more serious. Not solely because it was steeper and sharper, but because there are more fundamental concerns driving it. Brexit, or the election, or hurricanes can pass quickly, but rising yields are a more pressing threat. I don't mean to say that the market is ready to take a plunge, but I want to stress that the investing climate will become more challenging this year.

Let us start with the basics. Interest rates are going up. This week, the one-year Treasury broke 2% for the first time in nearly a decade. The 20-year bond recently broke 3%, and the 10-year will not be far behind.

The yield curve is also starting to flatten out at the long end. This means that yields level off after about seven years. Not completely, but it is a big change from where we have been.

One metric I like to follow is the spread between the 20- and 30-year Treasuries. In June 2016, the spread was 46 basis points. Lately, it has been as low as 11.

What I am describing is happening at the long end of the curve, but it will soon spread to the short end. Currently, the difference between the three-month Treasury yield and the two-year yield is greater than the difference between the 5-year and the 30-year.

If this sounds like mumbo-jumbo, I will boil it down. Rates are going up, and that puts the squeeze on stock valuations. This week, the Fed released the minutes from its last meeting, and the members appear quite confident that rates need to go higher.

The futures market currently sees an 83% chance of a Fed hike next month. There is a 66% chance of another rate hike in June, and a 65% chance of a third hike in December. (There is also a distant bet of *four* hikes by December. Yikes!)

The odd thing about the higher yields is that they are due to a good thing, which is the improving economy. The unemployment rate is still low. This has been a very good earnings season for Wall Street. The "beat rate" is the highest since 2006. Economists expect more good numbers for Q1. Americans' expectations for the economy are the second-highest since 2002.

What is happening is that two counter-acting forces are at play. The strong economy is boosting profits. In response, the rising economy is lifting interest rates. Stock valuations tend to move in a contrary direction to interest rates. In other words, the P/E Ratio is going lower, while the "E" part of the equation is getting bigger. This means the "P" part, the prices, is kind of stuck in the middle.

It is hard to fight a market with falling valuations.

I want to be clear that I am not predicting doom. Hardly. Instead, I am saying things are going to be different. The important takeaway for investors is that the stock market has been a lot more willing to shoulder risk. That normally happens with higher yields. If the one-year Treasury pays 0.1%, who cares? But now that it is at 2%, you have to put in a little more effort at getting profits. I think it is interesting that safe sectors like utilities and consumer staples have been having a rough time.

Syndication Partners

I have teamed up with Investors Alley to feature some of their content. I think they have really good stuff. Check it out!

Sell These Healthcare Middlemen About to Get Amazoned

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A few weeks ago, I told you about the announcement from Amazon.com (Nasdaq: AMZN) that it was joining forces with JPMorgan and Warren Buffett's Berkshire Hathaway to disrupt the healthcare industry. More specifically, the venture is being aimed at the many middlemen in the U.S. healthcare industry including insurance companies and pharmacy benefit management companies.

The focus on healthcare supplies is a smart move by Amazon since many hospital systems have been buying up medical practices as they move into the rapidly growing outpatient care market. However, most hospital distribution systems have not kept up and are still focused on just servicing the main hospital. Amazon can modernize their distribution system.

It is also a savvy move because it does not involve getting complex regulatory approvals. Many states do not require a license at all to sell low-tech medical supplies. It is the lowest-hanging 'fruit' in the very big healthcare market.

Once Amazon understands how to keep the shelves stocked with band aids and gauze, it should not be much of a stretch that it would move up the supply chain (while obtaining regulatory approvals) and begin to provide healthcare systems with medicines and high-tech medical devices.

The healthcare supply chain is a huge opportunity for a disruptive company like Amazon. The *Wall Street Journal* cited a November research report by Citigroup Global Markets Inc. that found fees, administration, marketing, and shipping costs account for an estimated 20% to 30% of healthcare supply costs. As Rob Austin of Navigant Consulting said to the WSJ, "There are a lot of people with fingers in the pie."

In other words, more middlemen that are driving up the cost of healthcare for you and me and everyone else in the country. Middlemen that are just begging to be Amazoned. As Jeff Bezos famously said, "Your margin is my opportunity."

So what middlemen companies are in the sights of Amazon in the healthcare supply chain? Check out my report.

3 REIT Dividend Increases Coming in March

As a dividend focused stock analyst, I put less emphasis on short term share price fluctuations and more on dividend yields and dividend growth prospects. When the market turns volatile, such as what we have experienced in the last several weeks, it is good to go back to the basics of dividend investing, which for me is dividend growth.

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A growing payout should, over time result in a higher share price. One nice way to get a quick start to capital gains from dividend growth is to buy shares just before an announced dividend increase.

I maintain a database of about 130 REITs, which I use to track yields and dividend growth. The typical REIT increases its dividend rate once a year, at about the same time each year. Across the REIT universe, the dividend increase announcements come in almost every month of the year. Each month, I like to cover the REITs on my list that have historically increased their payouts in the following month. You can use this information to establish longer term positions in stocks with growing dividends or try for the short-term capital gain that often occurs when a dividend increase is announced.

Here are three potential REIT dividend increases for March.

Next Week

Next Tuesday, we will get the latest durable goods report. On Wednesday, the government will update its report on Q4 GDP. Last month, the initial report said the economy grew by 2.6% in the last three months of the year. On Thursday, we will get the personal-income and spending data for January.

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-23-2018.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.

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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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