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, an American investor and security analyst:

"It was never my thinking that made the big money. It was always my sitting."

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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March 31, 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.

The first quarter of 2018 is officially in the books. Sadly, this was the worst quarter for the S&P 500 since the third quarter of 2015, and it was the second-worst quarter for the index in the past 22 quarters.

Those stats, however, are a bit misleading. While this was a down quarter for the S&P 500, the index only fell 1.22%; many of those 22 quarters were positive, but only barely. I point this out because this was all part of the "Baby Step" rally that defined the market for the past few years.

That rally came to an end during Q1/2018, so let us look at the market's Jekyll and Hyde first quarter.

The Jekyll-and-Hyde Stock Market

I think it is best to divide Q1 into two segments. The first part started the day after New Year's Day and ended on January 26. This was the last stage of the "Baby Step" rally. The market seemed to go up every day, but only by a little bit. On those occasions when the market fell, it was also by a little bit.

Daily volatility was very low, and the indexes never strayed far from their 52-week highs. The S&P 500 went an amazing 404 days without closing more than 5% below its all-time high. In particular, the market's gains were driven by a small group of very large tech stocks. This became known on Wall Street as the FAANG stocks (Facebook, Amazon, Apple, Netflix, and Google).

The problem was that the big gains from these few stocks made it so most stock-pickers trailed the S&P 500. The only exception is if stock-pickers owned one or more of the FAANGs, but most of them appeared wildly overpriced. Still, they climbed higher and higher. By January 26, the S&P 500 had gained 7.4% for the year.

After that, things began to change. On Monday, January 29, the S&P 500 fell 0.67%. That is really not much, but it was the worst day for the market in five months. As I said, that fact said a lot more about the preceding five months than it did about what happened on January 29. The next day, the S&P 500 fell by more than 1%. Now traders started to take notice. On Friday, the index fell more than 2%. The next day, it fell another 4%. The rout was on.

On Monday, February 8, the S&P 500 closed at 2,581. That was a 10.2% drop from the all-time-high close just nine days before. After that, the market quickly rebounded, but I warned you that the storm had not yet passed. Here is a sample of what I wrote:

February 16, "But mark my words–the bears will be back."

February 23, "I think there is a good chance we will soon see more dips."

March 16, "I still think there is danger out there."

The reason I was suspicious of the market's rebound is that the index "tested" its 200-day moving average, and quickly reversed course. On February 9, the S&P 500 dipped its toe below the 200-DMA, but closed higher on the day. The index rallied for another five days in a row. A quick bounce like that off the 200-DMA is not a good sign.

Sure enough, the stock market stalled out again after March 9. The S&P 500 then fell eight times in ten days. It was not helped by trade-war talk from the president. Then last Friday, March 23, the S&P 500 again slipped below its 200-DMA but closed just above it. Old Wall Street wisdom tells us that the more a support level is tested, the greater the chance it will fail.

Like a slingshot, the market shot up on Monday. The Dow gained 669 points for its best point day in nearly a decade and its third-best point day ever. Yet again, the market lost steam later in the week. What is important to understand is that the period since January 26 has been the time of the "broken market." Sure, stock prices have got pushed around, but most of the damage has fallen on the well-known FAANG stocks.

Now the market faces more serious challenges. Inflation may be creeping higher and the Fed is determined to raise interest rates. The labor market looks pretty good. This week, we learned that initial jobless claims fell to their lowest point in 45 years. A key indicator I like to watch is the spread between the 2- and 10-year Treasuries. On Thursday, the spread stood at 45 basis points. That is the lowest spread since 2007. Four years ago, the spread was over 220 basis points. It is not negative yet, but the 2/10 has gone negative before the last four recessions.

I don't want anyone to panic. If you hold overpriced tech stocks, then you may have something to worry about. Most of the FAANGs have been feeling the hurt lately. Facebook, for example, plunged 18% in seven days. Shares of Amazon got dinged by a presidential tweet. On the other side of the market, a lot of boring consumer staples companies have been doing well.

Next week, we will get some key economic reports. On Monday, the ISM Manufacturing report comes out. The recent numbers here have been quite good. On Wednesday, the ADP payroll report is released. Then Friday is Jobs Day. We will get the employment report for March. The last NFP report showed an increase of 313,000 jobs.

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/2018/03/cws-market-review-march-31-2018.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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