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 Oscar Wilde:

"Whenever people agree with me, I always feel I must be wrong."

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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April 6, 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.

On Monday, it finally happened. For the first time in 443 trading days, the S&P 500 closed below its 200-day moving average.

Actually, this is a big deal. The 200-DMA is one of those things I file under "Simple Ideas that Actually Work." The concept is not that hard. The stock market is prone to momentum, and the 200-DMA is a simple way to gauge how the market is doing relative to its previous trends.

Over the long haul, the market does poorly when it is beneath its 200-DMA. Let me be clear—I don't favor jumping ship. In fact, I think this is actually a good time for us, and our strategy. More on that later. But it is important to understand that this is a different market than the one we experienced over the last several months.

Here is a good example. In the last two months, guess how many times the S&P 500 has fallen more than 2% in one day? I will give you a hint. Six. Now guess how many times it happened in 16 months prior to that? Another hint. Zero. Not one.

The market has become more volatile, more unpredictable, and more unforgiving, making it such a good market for stock-pickers.

This Is a Good Market for Stock-Pickers

One metric I like keep track of is the relative performance of the **Equally Weighted ETF** (RSP) versus the **S&P 500 ETF** (SPY). The concept is pretty simple. The RSP is a fund that equally weights all the stocks in the S&P 500. The SPY is weighted by market value. The relationship between the two often tells us how "broad" the market is.

Over the last 16 months, the RSP badly lagged the SPY. In simple terms, the big fish have been doing most of the work, while the minnows have been left behind.

As a very general rule, stock-pickers tend to like the minnows more than index funds or institutional investors. Whenever you hear that it was a bad year for active managers, in all likelihood, that is a reflection of how broad the market was.

Some markets are broad, and some are narrow. We had a very, very narrow one, but that changed abruptly in March. Now the RSP has been crushing the SPY. The big stars of the rally, like the FAANG stocks, have been feeling the pain. Facebook, for example, is more than 18% off its high. Tesla is down more than 21% from its high. Many of the former high fliers are still overpriced.

But the real test for stocks will be the up-coming first-quarter earnings season, which is the key time for every rational investor.

I am particularly looking forward to this earnings season. Analysts on Wall Street currently expect the S&P 500 to have earnings of 35.64. That is the index-adjusted number, and it is a very good one. (Every point in the index is worth about $8.5 billion.) If that estimate is right, then it would represent a 23.7% increase over last year's Q1. That is very strong growth, and the final number will probably be even better. Typically, about 60% to 75% of earnings reports exceed expectations. Indeed, on Wall Street, you are expected to beat expectations.

Obviously, tax reform is playing a big role in the increased expectations. The business climate is improving. Typically, Wall Street pares back its earnings estimates as earnings season approaches. Not this time. At the start of the year, analysts were expecting Q1 earnings of $33.97. Over the last four months, Wall Street's estimate has increased by 5%.

For all of 2018, Wall Street expects the S&P 500 to earn 156.13. That is up about 7% since the start of the year. The current estimate means the index is currently going for just over 17 times forward earnings. Valuation is a tricky game, but I would call the current valuation elevated, but not dangerous.

With this earnings season, I am also on the lookout for increased guidance. Not all companies are required to provide guidance to investors. The better ones do, and I prefer to see it. The trick is spotting the ones that try to low-ball investors. Apple loves to do that, as does Ross Stores. This is still early in the year to see much in the way of higher or lower guidance. Still, companies are always talking with their suppliers and customers so they have a good sense of how the next few months will shake out.

Make sure your portfolio is well-diversified, and focus on high-quality stocks. Don't try to catch a bottom in any of the falling stars of the bull market. The selling there is not

over yet. I expect to see more volatility and more testing of the 200-DMA.

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/2018/04/cws-market-review-april-6-2018.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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