Third Party Research May 18, 2018

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 Will Rogers:
"Don't gamble; take all your savings and buy some good stock and hold it till it goes up, then sell it. If it don't go up, don't buy 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/.

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Bob Weir, CFA
Director of Research

May 18, 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.

I wish I could say the stock market has been interesting lately, but it hasn't. The market has been pretty dull, which doesn't bother me. For a while, the Dow looked like it was getting exciting, as it had an eight-day winning streak, but that came to an end on Tuesday. The market took a mild dip on Tuesday, and things have not moved much since then.

The bond market has been a little more interesting. The yield on the 10-year treasuries closed Thursday at 3.11%; that is a seven-year high. This is all part of the larger trend that has been going on for some time. Rates are going up all across the yield curve. In fact, the yield on the three-month Treasury bill recently crossed 1.9%, and may soon hit 2%, which it has not seen in a decade. The yield on the three-month is now higher than the yield on the S&P 500. The financial crisis happened 10 years ago, and things are still getting back to normal.

In this week's *CWS Market Review*, I will describe some of the market's recent action. Even though it appears boring on the outside, there are some interesting stirrings just beneath the surface. I will explain more in a bit.

The Hidden Bear Market

Around here, we are not much for market-timing. If I could do it well, and consistently, then I would be all for it. The problem I have found is that being a market timer forces your mind to be a bear-market predictor, which is a bit different. It is pretty simple, really. If you are looking for signs of trouble, you will soon start seeing them everywhere (Korea! Tariff! The Fed!), and that is not good for your portfolio.

We just came through a good earnings season. Across the board, we have seen good earnings reports, plus optimistic forecasts for the coming year. At the same time, the stock market peaked in late January. After the initial tumble, the bears have not been able to move the dial much.

Don't be fooled: they are not done trying.

But as stock prices are down from their highs, and earnings have improved, valuations are also lower. We assume that a bear market must be a sudden and ugly drop. But what if, instead of a big plunge, the market just rolled along for several months, maybe even more than a year, all the while earnings improved? The flat P and higher E would depress P/E Ratios, and that is the same net effect as a bear market. Happening in this way, it almost goes unnoticed.

Related to a shift toward lower valuations, we have seen a pronounced rotation on Wall Street. As I mentioned in last week's issue, energy stocks have been performing much better. They continued to get even stronger this week. This is most likely tied to an improving economy, and higher long-term yields.

The tech sector, which has been creaming the market almost non-stop for five straight years, is starting to look weak. I should note we have seen more than one head fake from tech in the past year. But the prospects for tech are important, because they tell us how much investors are willing to shoulder risk.

When the Dow was at 15,000, loading up on FAANG stocks was not too scary. Nowadays, the market is more discerning, plus the indexes are heavily dependent on large-cap names. Here is a good example: Before it got dinged on Thursday, Cisco accounted for 6% of the entire gain for the S&P 500 this year.

Meanwhile, the defensive sectors have received some relief. Consumer staples have been getting lapped by the market for more than two years. In fact, you can spot some pretty general yields among blue-chip consumer stocks.

Some healthcare names have been improving as well. As a technical note, I think of healthcare as a defensive sector, but it is not as purely defensive as utility stocks or consumer staples. Still, the improvement in these sectors, combined with the weakness in tech, leads me to think that the market is becoming more conservative and less tolerant of risk. Tesla, for example, is more than 26% off its high.

Next week the stock market will be closed on Monday, May 28 for Memorial Day. Next week's market will probably be fairly tame as we head into the three-day weekend. On Wednesday, the Fed will release the minutes from its last meeting. Then on Thursday, we'll get a look at existing-home sales. On Friday, the durable-goods report comes out.

There will be no newsletter next week.

However, 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

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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/2018/05/cws-market-review-may-18-2018.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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