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 Benjamin Franklin:

"If you would know the value of money, go and try to borrow some."

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.

Bob Weir, CFA
Director of Research

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June 8, 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 stock market suddenly got a lot more interesting this week. The Nasdaq Composite broke out to a new all-time high. So did the small-cap Russell 2000. The Dow is back over 25,000, and the S&P 500 rallied for four days in a row. The index recently touched its highest point in more than two months.

The market isn't so much celebrating good news as relieved that the prospect for bad news has dissipated. Global tensions seem to be relaxing. There may even be some sort of détente with North Korea. In the last few weeks, the price of oil has dropped more than 10%.

One piece of good news came last Friday, when the government said that the unemployment rate fell to its lowest since the 1960s.

In this week's issue, we'll take a closer look at the market and the economy. Is this really the best economy in half a century?

The Best Economy in 50 Years?

Last Friday, the government released the jobs report for May, and it said that the U.S. economy created 223,000 net new jobs last month. That figure beat expectations of 190,000 jobs. The unemployment rate ticked down to 3.8%, which tied the cycle low from April 2000. However, if you work out the decimals, the jobless rate is actually the lowest since the 1960s. (Well, since December 1969.) For women, it is the lowest jobless rate since 1953.

Despite the good news, there are some noticeable holes in the current expansion.

For one, it is always a bit dicey to compare unemployment rates over such a long period of time. The economy is quite different from what it was in 1960, and so is the labor market. While the economic numbers are improving, we are still not seeing much in the way of wage growth. In the last year, average hourly earnings were up 2.7%. That is okay, and it is above inflation, but it needs to be better. The equation is simple: higher wages means more shoppers.

The Federal Reserve meets again next week, and it is a near-certainty that the central bank will raise interest rates. This will be their seventh increase of this cycle. To recap, the Fed raised rates once in 2015, another time in 2016, then three times last year, and already once more this year. This will bring the target range for Fed funds up to 1.75% to 2%.

Not too long ago, it looked like there might be four hikes this year, but that is probably off the table. For now. With this meeting, we will get a post-meeting press conference with Chairman Jay Powell. The Fed members will also update their economic forecasts. These forecasts are notoriously poor, but I have to give the Fed some credit: they have largely stuck to their recent rate-hike plans.

I have tried to stress to investors that rising interest rates are Kryptonite to a stock rally. However, and this is crucial, it usually takes a few hikes to do any real damage. We are now getting close to the point where the Fed funds rate is equal to the dividend yield of the S&P 500. In 2009, that would have seemed like it was light-years away.

I like to keep track of the "real" Fed funds rate. That is the rate adjusted for inflation (I prefer using the core rate). After next week's hike, the real Fed funds rate will be very close to something it has not been in a long time—a positive number! In real terms, the Fed has been handing out free money for over a decade. I think we will need one more hike to finally push real Fed funds into positive territory. As a very general rule, it is hard to be against stocks when the Fed is handing out free checks. The Fed's low-rate policy has certainly been a key driver of this long rally.

But what about next year? According to the Fed's last projections, they see three more hikes next year. But there was wide dispersion, meaning the individual estimates are far apart. That is why next week's meeting is so important. We will probably get a better idea as to the Fed's thinking. Three more hikes could do some damage to the economy and the market.

There are a few things to consider. One is that long-term rates have come down some. That is kind of like the ceiling for short-term rates. Trouble usually happens when short rates exceed long rates. My favorite indicator is the 2/10 Spread, which is now at 45 basis points. That is down about 90 basis points in the last 18 months. We are not in the danger zone yet, but it is no longer unthinkable.

Get ready for a Fed rate hike next week. The Federal Reserve meets on Tuesday and Wednesday. The policy statement will come out at 2 p.m. on Wednesday. We will also get a look at the updated forecasts. There will also be some key economic reports. The retail-sales report will come out on Thursday. Then, on Friday, we will get to see the latest report on industrial production.

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/2018/06/cws-market-review-june-8-2018.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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