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 Peter Lynch (Berkshire Hathaway):

"Investing without research is like playing stud poker and never looking at the cards."

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: 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 big news this week was that the Federal Reserve raised interest rates by 0.25%. The stock market responded with a big yawn. The S&P 500 is still very close to its all-time high.

In fact, not much has bothered the S&P 500 lately. Not the Fed. Not approaching elections. Not even Elon Musk getting sued by the SEC. Ryan Detrick, one of my favorite numbers guys, recently noted that the past few months have been one of the least volatile on record. You probably would not have guessed that by looking at the headlines, but the S&P 500 has now gone 66 straight days without a daily move of more than 1%, either up or down.

Will the calm market last? I think so. In this week's *CWS Market Review*, we will take a closer look at this week's Fed news and what it means for us. So, let us look at what the Fed's game plan is.

The Federal Reserve Raised Rates—What Does It Mean for Us?

On Wednesday, the Federal Reserve raised interest rates. The move was almost universally expected. This was the Fed's third increase this year, and the eighth of the current cycle. The Fed's target range for overnight interest rates is now 2% to 2.25%. This means that interest rates are basically in line with inflation. We have not had positive real rates in a decade.

The reason for the Fed hike is actually good news. It means that the economy has been improving. One bit of news was that, in the Fed's policy statement, the FOMC dropped the word "accommodative" in describing its policy stance. There are folks who pore over every letter of every Fed statement, looking for clues. Fed Chairman Jay Powell cut off any speculation. He said the new language does not reflect any change in the path policy. Powell iterated that the Fed still sees itself following the same path as before, namely that of gradual rate hikes.

Here is the key part of the policy statement:

Information received since the Federal Open Market Committee met in August indicates that the labor market has continued to strengthen and that economic activity has been rising at a

strong rate. Job gains have been strong, on average, in recent months, and the unemployment rate has stayed low. Household spending and business fixed investment have grown strongly. On a 12-month basis, both overall inflation and inflation for items other than food and energy remain near 2 percent. Indicators of longer-term inflation expectations are little changed, on balance.

I know it sounds dry, but that is about as optimistic as central bankers get. Frankly, I would not read too much into the Fed's latest move. In terms of the stock market, higher short-term rates erase some of the allure of high-dividend stocks. That is only natural. But it is a mistake to think that a rising rate environment is bad for all value stocks.

I suspect that the Fed's policy will cause investors to not be as open to risk as they have been. When rates are low, it is not a big deal to get in on a hi-flying stock. Other financial assets are not offering much competition. That is not so true anymore. (In fact, I suspect that the lack of competition helped drive alternative assets like Bitcoin. That was the only game in town.)

Members of the Fed also updated their economic projections. This is where things get interesting, because we can assume that the cycle of rate increases is probably closer to its end than its beginning. The Fed sees one more rate hike coming this year. After that, they forecast three hikes next year, one more in 2020 and none in 2021.

In my opinion, 2021 is way too far out to make a reasonable prediction. But, in the near term, the Fed's forecasts tell us that the economy is very likely on a sound footing. Earlier this week, we learned that consumer confidence is at an 18-year high. This is a very good environment to be a stock investor.

The fourth quarter kicks off next week. With the start of the new month, we will get some key economic reports. On Monday, the ISM report comes out. The last ISM was the strongest in 12 years. Then, on Wednesday, ADP will release its report on private payrolls. On Friday we will get the September jobs report. The unemployment rate is close to a multi-decade low.

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/2018/09/cws-market-review-september-28-2018.html

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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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