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 Fed Chair, Jay Powell:

*"Interest rates are still low by historical standards, and they remain **just below** the broad range of estimates of the level that would be neutral for the economy."*

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

November 30, 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.

See those two words "just below" in the quote above? Those two little words rocked the entire market this week. Thanks to "The Two Little Words" (T2LW) on Wednesday, the S&P 500 had its best day in eight months.

Let us look more closely at what Jay Powell had to say, and why it sparked a big rally on Wall Street.

What "Just Below" Means

Let us turn back the clock to October 3. That is when Mr. Powell said in an interview, "We may go past neutral, but we are a long way from neutral at this point, probably." That is Fedspeak for "I will absolutely wreck this economy if I have to in order to kill inflation." Not surprisingly, that comment really spooked Wall Street. Traders took it to mean that the Fed was going to continue raising interest rates even though the yield curve was getting close to flat. The Fed might even raise rates a lot.

By neutral rate, they mean there is some magic interest rate out there, and if we are below it, the economy is being helped, but if we are above it, the economy is being constrained. The problem is, no one knows where the neutral rate is, so we have to guess. Even though we don't know where neutral is, we can occasionally get a faint hint as to its whereabouts. (If you want to be among the cool kids, the neutral rate is called "R-Star".)

People were unnerved by Powell's remark and, by October 10, the market finally cracked. The S&P 500 lost 5.3% in two days, and the pain lasted during much of the month of October. Looking inside the market, we can see that much of the damage from Red October was focused on housing stocks and construction in general. This makes sense because higher rates from the Fed mean higher mortgage costs, and that means fewer home sales. We also saw some soggy housing reports recently. In other words, footprints of R-Star.

What was Powell thinking in being so aggressive? Sure, the jobs market was looking better, but there haven ot been signs of inflation. In fact, commodity prices have been dropping. Oil is down, and the dollar has been strong.

In September, the Fed's "dot plot" was forecasting three more rate hikes for next year, on top of one more increase next month. As recently as three weeks ago, the futures market pegged a 23% chance of three more rate increases next year.

But the stock slide has changed perceptions. President Trump has also criticized the Fed. The president told the *Washington Post*, ""So far, I am not even a little bit happy with my selection of Jay. Not even a little bit. And I am not blaming anybody, but I am just telling you, I think that the Fed is way off-base with what they are doing."

The president is not alone in his thinking, and that brings us to Powell's comments from Wednesday. The Fed Chairman seems to have changed his tune, by saying that we are "just below" neutral. In other words, many more rate hikes *are not* coming. In fact, by looking at the stock chart, you can tell the exact moment at which Powell started speaking.

Let us look at a possible game plan for the Fed. I think it is very likely that they will hike next month but, after that, they may take a pause. In fact, I think it is very reasonable that the Fed will hike rates just once in 2019.

A pause from the Fed is very good for stocks, and that is what we saw. Let us also remember that stocks had not been doing well. The S&P 500 "tested" its closing low from late October. In fact, last Friday, the index closed at 2,632.56, which is the lowest close since early May. On top of that, the stock market's P/E Ratio has been falling for much of this year.

There's one more hurdle left, and that's the 200-day moving average. The S&P 500 is now less than 1% from its 200-DMA. If we can convincingly break above that, then I think we will see many more months of gains.

Next week is December, and we will get some of the key monthly economic reports. On Monday, the ISM Manufacturing Index comes out. The last one was 57.7, which is a little weaker than I had expected. On Wednesday is the ISM Non-Manufacturing Index. We will also get the ADP payrolls report, plus Fed Chairman Powell will be speaking. Thursday is jobless claims. Then, on Friday, is the big November jobs report. Last month, the economy created 250,000 new jobs, and the unemployment rate stayed at 3.7%.

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*! in two weeks' time.

- Eddy

BW: On Monday, Eddy will be on Bloomberg TV's "The Close" between 3:50 pm and 4:10 pm.

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/2018/11/cws-market-review-november-30-2018.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

Disclaimer: The information in this blog post represents my own opinions and does not contain a recommendation for any particular security or investment. I or my affiliates may hold positions or other interests in securities mentioned in the Blog, please see my *Disclaimer* page for my full disclaimer.