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 Bernard Baruch:

"Don't try to buy at the bottom and sell at the top. It cannot be done, except by liars."

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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Contributing Analyst

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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.

So far, Wall Street has started out 2019 on the right foot. It is too early to celebrate, but take comfort that the S&P 500 has closed higher nine times in the last eleven sessions. This is a welcome change from December. I will refrain from noting that the market is rallying while the government is closed. (BW: Okay!)

On Thursday, the S&P 500 finished trading 10.7% above the December 26 low (Boxing Day to our cousins in Canada).

So, is the bear over? In this week's issue, we will take a closer look at that question, but I will warn you, we are probably not in the clear just yet. I will also preview Q4 earnings season, which is set to begin soon. This looks to be another good reporting season for corporate earnings.

Is the Bear Market Over, or Just Hibernating?

December was the worst month for the stock market in ten years. It seemed like everything went wrong. Fortunately, Wall Street has been cleaning up some of the damage this month, but are we in the clear?

The simple answer is, I don't know. Sadly, I cannot predict the future. The more important answer is that we can try to understand the nature of the market, and how it behaves in times like this. The key fact to understand is that whenever there is a big drawdown like we saw last month, the market likes to "test" the low again. I don't know why; it just does. In fact, sometimes, the market will test the low two or three times. If the low holds, then it often portends an upswing. If not, there can be more pain ahead. (Please note: These are all generalities.)

The day after Christmas, the S&P 500 got as low as 2,346.58. I think it is very likely that the market will drop back near that area soon. If the resistance holds, then it will be a shot in the arm to the bulls. While the last eleven days have been good, we always judge a bear market rally guilty until proven innocent. This is especially true when the bounce is as impressive as this recent one. Remember that bear market rallies are designed to entice you back in.

Another important characteristic of investing is that the stock market tends to rise slowly and fall quickly. Even when we dissect terrible bear markets, we often see that a large part of the damage came in a short time. I call this the "Panic Phase." From December 3 to December 26, the S&P 500 plunged 15.7%. That was in just 14 trading days. Given how short and violent these periods are, I suspect that the panic phase of this bear market is behind us. I should stress that what I call the Panic Phase is not the bear market itself. Rather, it is the concentrated worst part. That is probably done for.

The public is still freaked out. On Christmas Eve, not far from the market bottom, I ran a poll on Twitter asking how much more the market had to fall. The consensus believed we had a lot more room to fall.

One of the curious aspects of investing is that the best time to buy is when everybody else is scared. In fact, bear markets are usually over by the time people realize they are in a bear market.

When we look at stock charts, it is easy to be fooled into thinking how obvious the past was. But that is not really how things play out. If you want to see what I mean, check out this simple market-timing game. If you are like me, after a few rounds, you see how bad you really are! That is exactly why we favor sound, disciplined investing over trusting our guy. The good news is that for our style of investing, we do not have to predict exact tops and bottoms. (Note Mr. Baruch's comments in this week's epigraph.)

I will highlight two keys that often signal a better market. One is that daily volatility tends to drop off. On Wednesday, the **Volatility Index** (^VIX) fell below 20 for the first time in a month. We also want to keep an eye on the 200-day moving average. If the S&P 500 can clear the 200-DMA convincingly, that is probably a signal that it is not just another bear market rally. The index is currently a little more than 5% from its 200-DMA. Over the next four weeks, the major factor deciding the market's fate will be Q4 earnings season. Let us take a closer look.

Preview of Fourth-Quarter Earnings Season

Next week, fourth-quarter earnings season gets underway. What made December's market damage so arresting is that Wall Street expects good earnings news. The sell-off would be more understandable if analysts were expecting things to get worse.

Right now, Wall Street forecasts Q4 2018 earnings for the S&P 500 of $40.39 per share. (That is the index-adjusted number. Each point in the S&P 500 is about $8.4 billion.) That is up 19.3% from Q4 2017. Over the past few weeks, Wall Street has gradually pared back its forecast for Q4/18. At the end of Q3, the expectation was for earnings of $42.14 per share. It is normal for analysts to start out high and lower expectations as earnings day approaches. The research folks at FactSet expect an earnings beat.

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Assuming these forecasts are accurate, that means the S&P 500 earned about $157 per share in 2018. That means the index is going for 16.5 times trailing earnings. Thatis hardly excessive. In 2017, the S&P 500 made $124.51 per share.

Next week, I suspect that the Shutdown Battle will dominate the news. Also, earnings season starts next week. The banks tend to report early. JPMorgan and Wells Fargo report on Tuesday. We will get the December retail-sales report on Wednesday. This will tell us how strong holiday shopping was. The report on housing starts is due on Thursday. Then on Friday, we will get 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

BW: In the rest of the newsletter, Eddy reviews his Buy List and reviews any of the stocks that are in the news. You can read about them and the entire article by clicking on the following link.

http://www.crossingwallstreet.com/archives/2019/01/cws-market-review-january-11-2019.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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