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 Jack Welch (ex GE CEO:

"If you don't have a competitive advantage, don't compete."

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
Contributing Analyst

Note: All of the comments, views, opinions, suggestions, recommendations, etc., contained in the Crossing Wall Street articles, and which is distributed by *e*Research Corporation, are strictly those of the Author and do not necessarily reflect those of *e*Research Corporation.

March 8, 2019

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.

Tomorrow is the Bull Market's 10th birthday. On March 9, 2009, the S&P 500 closed at 676.53. Since then, the market has more than quadrupled. Once we include dividends, then it is up fivefold. (Yep, those re-invested divies sure do add up!)

This has been one of the longest and strongest bull markets in history. Yet, what I find interesting is how *hated* it has been. Some folks just cannot stand this rally. All along the way, I have heard countless voices telling me that the upsurge was all phony and that we are about to plunge into the abyss. Just you wait!

Some said it was a house of cards built by the Fed. Or some folks said it was all a mirage because of share buy-backs. In this week's issue, I want to look back on the amazing bull run, and see what important lessons there are. Later on, we will look at the growing gap between the stock and bond markets.

Happy 10th Birthday to the Bull!

Let us turn back the clock to March 6, 2009. That was a Friday and, like today, it was the day of the February jobs report. The report was a disaster. The U.S. economy lost a staggering 651,000 jobs in February 2009. The details were even worse. The number for January was revised to a loss of 655,000 jobs, and the loss for December was revised to 681,000. That was the single-worst month for jobs in 60 years.

BW: *The announcement this morning was that just 20,000 non-farm jobs were created in February against the forecast for 180,000 and compared to January's 310,000. However, the U.S. unemployment rate dropped to 3.8% from 3.9%, and average annual hourly earnings rose 3.4% against a gain of 3.1% in January. The jobs numbers are not good, on a comparison basis, but nowhere near the staggering negative numbers of March 2009.*

There was bad news everywhere. The unemployment rate came in at 8.1%, which was a 25-year high. (Note that some of these numbers have since been revised over the last ten years, but these are numbers that came out ten years ago.)

During the day on March 6, the S&P 500 fell to a devilish low of 666.79. The Dow got down to 6,469.95. Adjusted for inflation, that is unchanged from the Dow's peak 43 years before. Think about that. Forty-three years of no change.

I bring up these stats to point out a crucial lesson—this was the best time to invest in a generation. The news was terrible, and stocks were a great buy. Investors had to tune out the fear and focus on the long-term. Make no mistake: that is not what the experts were saying.

I will give you an example. On March 6, the *Wall Street Journal* ran an editorial titled "Obama's Radicalism is Killing the Dow." Talk about lousy timing. The article was not written by some nobody; it was by a former chairman of the President's Council of Economic Advisors. Nouriel Roubini, who had earned the nickname "Dr. Doom," said the market had even further to fall.

Let us look at some indicators. The Volatility Index was at 50. Yikes! The TED Spread (remember that one) was at 1%. On Friday, the S&P 500 actually closed a tiny bit higher. The market sunk again on Monday but, crucially, it did not break below Friday's low. On Monday, the S&P 500 closed at 676.53. That was a 12-year low. As of now, that stands as the lowest close this century.

Beneath the noise, there was a small news item at that time that did not get too much attention. Congress was considering backing off on the mark-to-market rules. I cannot say for certain, but that is my strongest contender for what led the market to turn around. The lesson here is that many experts were flat wrong. For disciplined investors with a long-term focus, this was a great time.

Within a month, the S&P 500 soared 25%. The index gained 70% in less than a year. By the bull's first birthday, Dr. Robert Shiller, a Nobel Prize-winning economist, said the market was due for a pullback.

The Divergence Between Stocks and Bonds

There has been an interesting divergence lately between the stock and bond markets. Let me explain what I think is driving it. Late last year, the stock market tanked. The S&P 500 lost about 20% in three months.

While stock prices plunged, bond prices soared and bond yields fell. That is perfectly natural as investors seek out safety. The yield on the 10-year bond fell from 3.24% on November 8 to a low of 2.56% on January 3. That is a huge drop for less than two months.

Since then, the stock market has recovered a lot of lost ground, but bond yields have not moved much at all. On Thursday, the 10-year yield stood at 2.69%. That is just five basis points higher than where it was at the end of 2018, yet the stock market is up more than 9.6% on the year.

So, stocks go down, and bonds go up. Then stocks go up and bonds stay the same. What is going on?

I think this phenomenon threads together a few important trends. One is obvious. The bond market is reflecting the Federal Reserve's newly-found "patience." If the Fed is going to chill out on interest rates, then it makes sense for long-term yields to be stable. The yield on the two-year Treasury, which can serve as a quick proxy for Fed policy, has not moved much in several weeks.

The low long-term yields also suggest that the market is rallying on higher valuations. That is always a fragile enterprise. I will take any rally we can get, but we are getting one where the P/E Ratio is getting bigger. The "P" is rising while the "E" is pretty flat. There is nothing wrong with a higher earnings multiple, but we should bear in mind that it can be fleeting.

This year may be a tough one for earnings growth. In fact, there is a chance that earnings may contract a bit this year. We have already seen earnings estimates get slashed for Q1. Earnings valuations are decently (though not perfectly) correlated with long-term interest rates.

This also suggests that the market is more cautious about the economy. I would say that it is unlikely that a recession will start this year, but it could be a year of more subdued growth. For example, the yield on the 10-year TIPs, the inflation-protected bond, recently got down to 0.72%. That's an eight-month low.

Within the stock market, growth stocks have been outpacing value stocks. That may not last much longer.

Next week, on Monday, we will get another retail-sales report. I expect a revision to the terrible numbers for December. On Tuesday, we will get the latest CPI report. I expect more subdued inflation. On Wednesday, we get durable goods and construction spending. New-home sales are on Thursday, and industrial production is on Friday.

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/2019/03/cws-market-review-march-8-2019.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

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.