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 a quote from Plato:

"A good decision is based on knowledge and not on numbers."

Read his 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. Our various research packages allow corporate management to choose the form of research coverage that best meets their company's needs. We are a primary source for professional investment research, focused primarily on small- and mid-cap companies. Our research and analysis is of institutional quality, and has the potential to reach millions of global investors through our extensive electronic distribution network.

Bob Weir, CFA
Director of Research

October 4, 2013

Crossing Wall Street: Market Review

by Eddy Elfenbein

BW: Mr. Elfenbein's article has been edited for interest content. If you wish to read the entire article, click here:
http://www.crossingwallstreet.com/archives/2013/10/cws-market-review-october-4-2013.html.

"A good decision is based on knowledge and not on numbers." - Plato

The stock market has had a good time recently rallying when things have not happened. No taper, we're up. No Syria attack, we rally. No Larry Summers, up again.

Now we have no government, and the market is starting to get annoyed. Well, we don't literally have zero government, but we do have a government shutdown, and it's looking like it might last a while.

The Economist observed, "once a stalwart of good governance, America looks like a rodeo clown." Traders clearly aren't happy. On Thursday, the stock market took its biggest tumble in five weeks. More importantly, the S&P 500 closed below its 50-day moving average by a teeny 0.07%. That's usually a bad omen.

First, the S&P 500 rallied for 11 out of 12 days. Now it's fallen for 9 of the last 11 days. I'm happy to report that our Buy List continues to do very well. We outperformed the S&P 500 during the trip up, from August 30 to September 18 (6.36% versus 5.67%). And we're beating the index on the way down, since September 18 (-1.78% versus -2.72%).

In this week's CWS Market Review, I'll discuss my outlook for the stock market amid the government shutdown. The good news is that earnings season is finally here. As I like to say, earnings season is Judgment Day for Wall Street. We'll soon learn whose earnings were good, bad and/or ugly.

But first, let's look at why I'm not so concerned about the latest shenanigans in Washington, but I am concerned about earnings.

The Stock Market Has Chilled out in a Big Way

As I mentioned before, the S&P 500 rallied during the first part of September and has retreated ever since. But what's particularly interesting is how calm the market has been.

Volatility, in fact, is at a seven-year low. Thursday was the worst day in five weeks, but it was only a loss of 0.9%. That's not that bad. During the third quarter, the average daily swing of the S&P 500 was a measly 0.45%. Compared with recent history, that's peanuts.

Consider this fact: The S&P 500 has risen by more than 1.5% just once this year. Between 2008 and 2010, that happened 103 times. And that one day this year came on the very first trading day of the year. So we haven't had a decent one-day jump in nine months. Sure, the market's been going up, but it's been an orderly and progressive climb.

Part of the reason is that the big concerns for Wall Street are gradually going away. Two years ago, the big concern was Europe. If you recall, each Friday was a nail-biter because traders didn't want to hold their positions over the weekend when God-knows-what political bombshell could strike Europe. Two years ago, the stock market was down one day because of the news out of...wait for it...Slovakia. (Yes,I'm serious.)

My apologies to our friends in government agencies and bureaucracies, but our concern as investors should be the business operations of our stocks. We shouldn't have to worry about who might bail out whom.

The market's natural tendency is to search around for something to worry over, and then blow it out of proportion. We've seen that time and time again this year. If the market can't easily find something to fret over, it will keep on searching till it finds something. Anything.
Here's my take. I don't worry about any of these transient stories, but there is one big thing I do worry about: earnings. And to a much lesser extent, interest rates. But if earnings are good and the earnings outlook is good, then I'm not panicking. That's all there is to it. In fact, I would say that I'm not even concerned about a high-quality stock missing the Street's earnings forecast by a penny or two, as long as the good trend remains intact. Remember Plato's words: "A good decision is based on knowledge and not on numbers."

That's the great benefit of owning good stocks.

It's useless to speculate how long a government shutdown will last, or what will happen with the debt ceiling. I'm confident in saying these issues will be resolved simply because they have to be. Members of Congress aren't about to wreck the economy in an attempt to rescue it. To quote Ecclesiastes, "The king himself is served by the field."

We also had some good economic news this week. On Tuesday, the ISM Manufacturing Index came in at 56.2. That's the highest number in 30 months. Any number above 50 means the factory sector of the economy is expanding. Below 50 means it's shrinking. The ISM report has a very good track record of aligning with recessions. For now, the economy is very much in the safe zone. But we shouldn't take that to mean the economy will grow rapidly. In fact, I think it's very likely that we'll continue our current sluggishly positive growth.

The other big economic news was the ADP jobs report. Thanks to the government shutdown, there won't be a BLS jobs report this week so we have to rely on ADP, which is a private payroll firm. According to ADP, the economy created 166,000 jobs last month. That was a bit less than expected but it's basically inline with the current trend of meager job growth. This news will probably put more pressure on Ben Bernanke and his buddies at the Fed to hold off on tapering for awhile more. The recent talk is that tapering may start in December. Until then, the Fed is squarely on the side of investors.

Should Bill Gates Leave Microsoft?

Lately, there's been a lot of chatter about some personnel shakeups at some of our Buy List stocks. Specifically, some big **Microsoft** (MSFT) investors said that it's time for Bill Gates to step down as chairman of the board. Technically, shareholders can vote him out, but Bill owns such a big stake in MSFT that it's nearly impossible to do.

I think the issue is very simple. If Bill Gates is more interested in philanthropy at this stage in his life, then he ought to step down and concentrate on giving away his fortune full time. I wouldn't blame him at all. In general, I think Microsoft would be better served by some newer folks. I'm also not sure how involved Gates is in the day-to-day running of the firm, even as COB. Microsoft certainly has a lot of challenges ahead of them, but I like the stock on a valuation basis. MSfT is a good buy up to $34 per share.

There were also reports that **Ford**'s (F) brilliant CEO Alan Mulally might depart to become CEO at Microsoft. (If you recall, Steve Ballmer said he will retire in the next 12 months.) I strongly doubt this would ever happen. Mulally seems happy where he is, and he's been doing a great job at Ford. Plus, the turnaround still has some legs.

Speaking of which, Ford had more good news this week when they announced strong sales gains last month. September was their best sales month in seven years. The F-150 pickup had its fifth month in a row of sales topping 60,000. The Fusion and Fiesta are also doing well. Look for a strong earnings report from Ford later this month. Ford continues to be a very good buy up to $18 per share.

Before I go, I wanted to add few more items. Bloomberg had a very good article discussing the issues facing **DirecTV** (DTV) and the satellite-TV industry.

The Wall Street Journal had a good interview with the CEO of **Stryker** (SYK).

That's all for now. Be sure to keep checking the blog for daily updates. I'll have more market analysis for you in the next issue of CWS Market Review!

- Eddy

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.

2223 Ontario Road NW, Washington, DC 20009, USA

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, we're at the beginning of a *global* financial revolution. That's 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's 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's more interested in its fees than serving investors. Today's 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'm 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'm 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