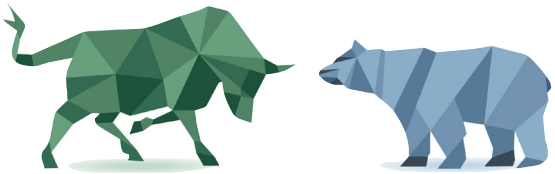
October 1, 2018

Braeburn Observations



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LOWRY'S 9/28/18

Rising supply (as indicated by Selling Pressure) is still clearly absent in the current market. Although some small caps are showing a bit of weakness, other indicators are hitting all time highs. As such the Bull Market in US Equities seems intact.

U.S. MARKETS

The major U.S. indexes ended mixed for the second week. The technology-heavy Nasdaq Composite recorded a solid gain, while most of the other benchmarks declined. The Dow Jones Industrial Average fell 285 points, or -1.1%, closing at 26,458. The NASDAQ held above the 8,000-level rising 59.4 points to close at 8,046, a gain of 0.74%. By market cap, the large cap S&P 500 index declined -0.54%, while the mid cap S&P 400 and small cap Russell 2000 fell -1.1% and -0.9%, respectively.

INTERNATIONAL MARKETS

Canada's TSX finished down -0.9%, while the United Kingdom's FTSE added 0.3%. On Europe's mainland, France's CAC 40 was essentially flat, down just -0.01%, while Germany's DAX fell -1.5%. China's Shanghai Composite and Japan's Nikkei added to last week's gains by rising an additional 0.9% and 1.1%. As grouped by Morgan Stanley Capital International, developed international markets finished down -0.9%, and emerging markets were off -0.7%.

U.S. ECONOMIC NEWS

The number of Americans who applied for new unemployment benefits last week rose to their highest level since early August, but still below expectations. The Labor Department reported initial jobless claims rose 12,000 to 214,000 in the week ended September 22. Economists had expected a rise to 216,000. Officials stated it was too early to say whether the rise in claims was due to Hurricane Florence, but there were large jumps in claims in North and South Carolina so that cause seems likely. The monthly average of new claims rose by 250 to 206,250. Continuing claims, which counts the number of people already receiving unemployment benefits, rose by 16,000 to 1.66 million.

Prices for existing homes rose just 0.2% in July, according to the latest S&P CoreLogic Case-Shiller National Home Price Index reading. The increase was its smallest gain since May 2014. Year-over-year, prices are up 6.0% from the same time last year, down from a high of 6.5% a few months ago. The moderation was relatively broad-based across several geographic areas. The West continued to fare the best. In July, Las Vegas was the number one metro area with a 13.7% annual increase, followed by Seattle at 12.1% and San Francisco at 10.8%. David Blitzer, who chairs the committee that compiles the price indexes said, "Rising home prices are beginning to catch up with housing."

Sales of new homes rebounded 3.5% in August and were up 12.7% compared to the same time last year. The Commerce Department reported new-home sales ran at a seasonally-adjusted annual rate of 629,000 in August, exceeding forecasts of a 625,000 pace. The median selling price for a new home in August was $320,200, up 1.9% from year-ago prices. At the current pace of sales, it would take 6.1 months to exhaust available supplies. Six months of supply is generally considered a "balanced" housing market, and this is the first time that the inventory has reached this "balanced" level since 2014, and only the second time since 2011.

A measure of the U.S. economy from the Chicago Federal Reserve held steady in August, indicating a pickup in economic activity over the course of the third quarter. The Chicago Fed National Activity Index remained unchanged at 0.18, while its three-month average rose 0.22 point to 0.24. The current reading is consistent with an environment of above-average economic growth. The Chicago Fed index is a weighted average of 85 economic indicators designed so that zero represents at-trend growth and a three-month average below negative 0.70 suggests a recession has begun. In August, 48 of the 85 individual indicators made positive contributions, while 37 weighed. Notably, production-related indicators, such as factories, contributed a positive 0.16 in August.

Orders for goods intended to last longer than three years, so-called "durable goods", rose 4.5% in August predominantly due to orders for commercial aircraft

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and a surge in defense spending. It was the biggest increase since February, but the details of the report weren't as robust. Stripping out the planes and cars categories, orders were up just 0.1% - weaker than many economists had expected. Orders for core capital goods, a key measure of business demand, fell 0.5% in August. On a year-over-year basis, though, both durable goods orders and capital goods orders were strong, up 8.3% and 8.2% respectively, a sign of sustained momentum in factory activity.

Confidence among the nation's consumers surged to an 18-year high in September, very near an all-time peak. The Conference Board reported its Consumer Confidence Index rose 3.7 points to 138.4, its fourth increase in the past five months and its highest level since near the end of the internet boom in 2000. Economists had incorrectly forecast a 1.4 point decline to 132. The reading bodes well for consumer spending growth and is consistent with above-average economic growth. In the details, consumer expectations jumped 6.0 points to 115.3 as the outlook for job availability hit its highest level since January of 1984. The present conditions index also ticked up 0.3 point to 173.1 as assessments of both current conditions and employment conditions also rose. Overall, confidence increased across all demographic groups, but was mixed by income.

In a move that was widely anticipated, the Federal Reserve lifted its key U.S. interest rate by a quarter point, sticking to its gradualist strategy of raising the cost of borrowing. In a unanimous vote, the Fed raised its short-term fed funds rate to a range of 2.00%-2.25%, the highest level in a decade. Somewhat surprisingly, the Fed dropped longstanding language in its statement saying that its monetary policy "remains accommodative." The Federal Open Market Committee currently projects one more rate hike before the end of the year, and three more in 2019.

About Our Research Sources

Barron's – Since 1921 Barron's has provided investment analysis and insight in its weekly publication and, in recent times, it's continuously updated web site. Barron's provides a wide range of perceptives, expert analysis and interviews with financial and investment professionals.

Investor's Business Daily (IBD) – A daily newspaper designed for the individual investor. All of its products and features are based upon the CAN SLIM Investing System developed by its founder William J. O'Neil. This system identifies the seven common characteristics what winning stocks display. For more on this see his book "How to Make Money in Stocks."

Lowry's – Based out of Miami, Florida, Lowry's is the oldest continuously published Technical Investment Advisory service in the US. Their work, which gives insight into the underlying supply and demand dynamics of the market, is based upon a daily examination of all stocks on the New York Stock Exchange and Nasdaq Stock Market. Lowry's has pioneered work in the statistical analysis of upside and downside volume statistics including their exclusive measure of buying and selling pressure.

Mauldin Economics - Best selling author, analyst and financial writer, John Mauldin, taps into his network either directly or through the reams of high-level research he's privy to on a regular basis, to assist in identifying the smartest investments for today's markets; then carefully screened and evaluated by a team of ace analysts.

Stock Trader's Almanac – A unique annual publication created by Yale Hirsch in 1967. The almanac is a treasure trove of insightful research originating such important phenomena as the "January Barometer," the "Santa Claus Rally," and "Sell in May and Go Away." It includes data backing, historically proven, cyclical and seasonal tendencies.

The Fat Pitch - an acclaimed blog that the Business Insider ranks on their annual list of the Top Finance People to Follow. The blog is written by Urban Carmel who has had a long career in financial markets. This blog discusses trends he sees and the business of managing money.

The Sherman Sheet - published by W. E. Sherman and Co., of St. Louis MO. Bill Sherman is a long-time prefessional money manager who developed an in-depth expertise in computerized analysys and statistical measurements over the years, and is a recognized expert in several areas of the investment universe.

Value Line – Founded in 1931, Value Line is an unbiased research firm providing intuitive investment research on companies, industries, markets and economies. Value line provides astute fundamental research, trending information and historical data that allows for shrewd decision making.

Zacks – Founded in 1978 by Len Zacks, PhD. MIT, Zacks is an investment research firm pioneering work in the area of corporate earnings estimate revisions and stock performance. Zacks believes, and Braeburn agrees, that Earnings Estimate Revisions are the most powerful force impacting stock prices.

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