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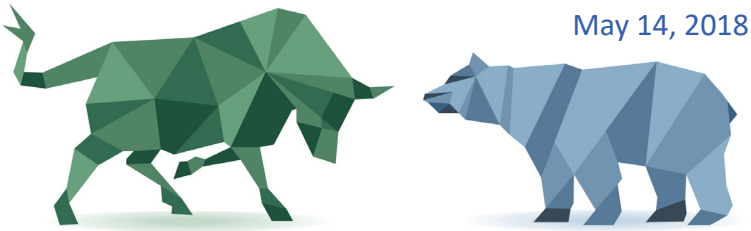
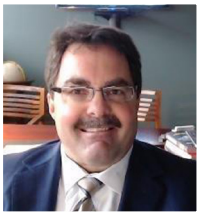
Braeburn Observations

May 14, 2018



Michael A. Poland, CFA®



CEO & Founder
Wealth Advisor
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LOWRY'S 5/14/18

The broad market is again in the black year-to-date. The S&P 500 is currently up about 3% when you factor in dividends. The Nasdaq 100 (QQQ) is up 9.6%, while bonds, real estate, utility stocks and large value stocks lag.

U.S. MARKETS

Stocks recorded solid gains this week as the major indexes moved back into positive territory for the year to date. The large cap S&P 500 achieved its best weekly advance in two months and closed above its key 100-day moving average for the first time since mid-March. The Dow Jones Industrial Average rallied 568 points, or 2.3%, to close at 24,831. The technology-heavy NASDAQ Composite added 2.7% closing at 7,402. By market cap, the large cap S&P 500 index gained 2.4%, while the mid cap S&P 400 and small cap Russell 2000 added 2.2% and 2.6%, respectively.

INTERNATIONAL MARKETS

Canada's TSX closed up for the fifth consecutive week by rising 1.6%. Across the Atlantic, the United Kingdom's FTSE recorded its seventh consecutive week of gains, adding 2.1%. On Europe's mainland, France's CAC 40 added 0.5%, while Germany's DAX rose 1.4%, and Italy's Milan FTSE retreated -0.7%. In Asia, China's Shanghai Composite index rose 2.3%, its third straight week of gains. Japan's Nikkei closed up for a seventh straight week rising 1.3%. Hong Kong's Hang Seng index rebounded from last week's drop and closed up 4%. As grouped by Morgan Stanley Capital International, developed markets rose 1.2% last week, while emerging markets gained 2.1%.

U.S. ECONOMIC NEWS

After The number of people applying for new unemployment benefits held steady for the second week in a row, according to the Labor Department. New claims remained flat at 211,000 in the week ended May 5, the government reported. Economists had expected a slight rise to 215,000. The four-week average of new claims, used to smooth out the weekly volatility, fell by 5,500 to 216,000—its lowest level since December of 1969. Continuing claims, which counts the number of people already receiving unemployment benefits, rose by 30,000 to 1.79 million.

For the first time ever, there's now a job opening available for each and every unemployed worker. According to the Labor Department's Job Openings and Labor Turnover Survey (JOLTS), there were 6.6 million job openings in March, compared to 6.59 million unemployed workers. Job openings in total rose by 472,000 in March. In the details of the report, professional and business services added 112,000 positions, construction added 68,000, and the transportation, warehousing and utilities sectors added 37,000 new positions. The Quits rate in the JOLTS report, watched closely by the Fed, rose by 136,000 to 3.34 million. Counterintuitively, a higher quit rate is a good thing - it is presumed that workers only quit jobs if better opportunities are plentifully available.

Consumer credit grew at its slowest rate in 6 months according to the latest data from the Federal Reserve. The Fed reported consumer credit grew in March at a seasonally-adjusted 3.6%, or $11.6 billion, marking its slowest gain since September. The reading fell short of economists' expectations of a $13.6 billion advance. Non-revolving credit, which includes student and auto loans, grew by 6%--the third consecutive month of growth for that category. Revolving credit, primarily credit cards, fell 3% marking its second drop in a row. Economists expect with rising employment and growing gains in income, consumer credit should continue to increase. However, while credit growth averaged above 7% in 2014 and 2015, it's currently running at just an annualized 4.25% through the first quarter.

Sentiment among the nation's small-business owners ticked up just a slight bit in April as the surge in optimism following last year's tax cuts appears to be slowing its ascent. National Federation of Independent Business (NFIB) reported its small-business optimism index rose 0.1 point to 104.8 last month. The confidence index soared to new highs after tax cuts were passed last year, but it has struggled to maintain its momentum. Despite the lackluster headline number, the NFIB highlighted a surge in the index of expected profit trends, which hit its highest level in the survey's 45-year history. The NFIB said in its' statement, "The optimism small businesses owners have about the economy is turning into new job creation, increased wages and benefits, and investment." Survey respondents continued to report that the biggest problem they face is finding qualified workers.

Prices at the wholesale level barely rose last

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month after strong gains in the first quarter, according to the latest producer price index reading. The Labor Department reported its Producer Price index (PPI) rose 0.1% in April, missing economists' estimates of a 0.3% rise. The slight increase, held down by moderation in the cost of both goods and services, should ease fears that inflation pressures are rapidly building. However, analysts were quick to point out that the slowdown in wholesale price growth is likely temporary as manufacturers continue to report paying more for their raw materials. Year-over-year, the PPI is up 2.6%, down 0.4% from March.

At the consumer level, the Labor Department reported that the Consumer Price Index (CPI) rose 0.2% last month after slipping 0.1% in March. In the 12 months through April, the CPI increased 2.5%. In the report, rising costs for gas and rental accommodations were tempered by a moderation in healthcare prices. Excluding the volatile food and energy components, the so-called core CPI edged up 0.1% after two straight monthly increases of 0.2%. Year-over-year, core CPI is up 2.1%. While the Federal Reserve has publicly stated it targets a 2% rate of inflation, the Fed uses a different inflation measure for this purpose. This measure, called the Personal Consumption Expenditures (PCE) price index is currently sitting at 1.9%. Economists expect the core PCE price index to breach the Fed's target this month.

Sentiment among the nation's consumers was slightly higher than anticipated for the first week of May, according to the University of Michigan. The University of Michigan's survey of consumer attitudes about the economy came in at 98.8, in line with April's revised result. While the overall index was unchanged, there was some movement in the components of the index. Consumers' views of their current situation slipped 1.6 points, while the expectations component gained 1.1 points. In its release, survey director Richard Curtin noted that fewer consumers anticipated additional declines in the unemployment rate and that "Consumers have a remarkable track record for anticipating changes in the actual unemployment rate."

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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