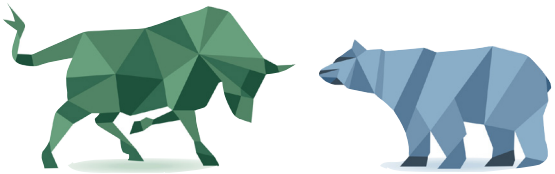
June 3, 2019

# Braeburn Observations



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## LOWRY'S 5/31/2019

The probabilities are the registration of the May 29th Selling Control No. 2 did not signal the end of the bull market but does suggest that defensive measures appropriate to individual Portfolios should be taken.

## U.S. MARKETS

U.S. stocks fell sharply and closed out their worst month since December as trade tensions ratcheted higher. Small caps, which are usually thought to be less sensitive to global trade tensions than their larger peers, nonetheless performed the worst, and the S&P 400 mid cap index joined small caps in correction territory—defined as more than 10% down from a recent high. The Dow Jones Industrial Average gave up 770 points last week, losing the 25,000 level, and closing at 24,815—a loss of -3.0%. The technology-heavy NASDAQ Composite gave up -2.4% and closed the week at 7,453. By market cap, the large cap S&P 500 declined -2.6%, the mid cap S&P 400 index retreated -2.8%, and the small cap Russell 2000 gave up -3.2%.

## INTERNATIONAL MARKETS

Canada's TSX finished down for the fourth week of the last five, losing -1.2%. Across the Atlantic, the United Kingdom's FTSE fell -1.6%, while on Europe's mainland France's CAC 40 retreated -2.1%, Germany's DAX declined -2.4%, and Italy's Milan FTSE gave up -2.8%. In Asia, China's Shanghai Composite gained 1.6%, while Japan's Nikkei 225 declined -2.4%. As grouped by Morgan Stanley Capital International, developed markets fell -2.1%, while emerging markets rose rebounded 1.9%.

## U.S. ECONOMIC NEWS

The number of Americans seeking first time unemployment benefits rose slightly to 215,000, but remained near multi-decade lows. The Labor Department reported initial jobless claims rose by 3,000 last week, matching economists' estimates. The less-volatile monthly average of new claims fell by 3,750 to 216,750. Continuing claims, which counts the number of people already receiving unemployment benefits, declined by 26,000 to 1.66 million. That number is reported with a one-week delay.

The number of homes where a contract has been signed but has not yet closed fell a seasonally-adjusted 1.5% in April and were 2% lower than the same time last year, according to the National Association of Realtors (NAR). Contract signings precede closings by about 45-60 days, so the pending home-sales index is a leading indicator for upcoming existing-home sales reports. By region, only the Midwest saw an increase, with a 1.3% rise. Pending sales were down 1.8% in the Northeast, 2.5% in the South, and 1.8% in the West. Despite the declines, the NAR remained resoundingly upbeat. NAR Chief Economist Lawrence Yun stated, "It's inevitable for sales to turn higher in a few months."

The rate of increase in home prices weakened again according to the latest data from S&P CoreLogic. The S&P CoreLogic Case-Shiller home price index rose an annualized 3.7% in March, down from 3.9% in February. As recently as last fall many regions had reported double-digit price increases. The latest report's largest annual gain was 8.2% in Las Vegas, but Seattle's previous 13% gain has dropped to just 1.6%. The 20-City Composite index dropped from 6.7% annual gains, to just 2.7% over the past year. David Blitzer, managing director and chairman of the Index Committee at S&P Dow Jones Indices stated, "Given the broader economic picture, housing should be doing better."

Confidence among the nation's consumers surged in May to a six-month high, spurred by a robust labor market. The Consumer Confidence Index rose 4.9 points to 134.1 the Conference Board reported. Of note, the survey results were compiled before trade talks between the U.S. and China

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deteriorated. In the details, the survey that asked Americans how they view the economy at present rose to 175.2—its highest level since December 2000. In addition, the index that tracks how consumers view the economy 6 months from now rose 3.9 points to 106.6. Lynn Franco, director of economic indicators at the Board stated, "Despite weak retail sales in April, these high levels of confidence suggest no significant pullback in consumer spending in the months ahead."

Americans cut back on spending in April after a surge in March, according to the Commerce Department. Consumer spending rose 0.3% last month, a steep drop from March's 1.1% increase. Incomes rose 0.5% in April, the largest gain in four months while the Personal Consumption Expenditures index rose 0.3%. The rate of inflation over the past year rose to 1.5%--its highest level since December. Sal Guatieri senior economist at BMO Capital Markets stated, "Despite an escalating trade war, the American consumer is still kicking, and likely to keep the economy moving forward so long as hiring doesn't give out."

Consumer sentiment took a hit in the last half of May after the trade dispute between the U.S. and China escalated into another round of retaliatory tariffs. The University of Michigan's final results for consumer sentiment was lowered 2.4 points to 100 in May, down from its highest reading in 15 years. In the details, over 30% of respondents "spontaneously" mentioned the new tariffs versus just 16% earlier in the month.

First-quarter GDP grew a bit slower than originally reported, predominantly due to weaker business investment, said the government's Bureau of Economic Analysis. Gross domestic product, the official scorecard for the economy grew at a 3.1% annual pace in the first quarter—down a tick from the initial 3.2% estimate. Economists had expected first-quarter GDP to be revised down to 3%. Of note in the report, adjusted corporate profits before taxes fell at an annual -2.8% pace—the biggest decline since 2015. Chief Economist Scott Brown of Raymond James summed up the report writing, "The first quarter story remains the same — headline GDP growth was boosted by inventories and net exports, while consumer spending and business fixed investment rose at a lackluster pace."

## 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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