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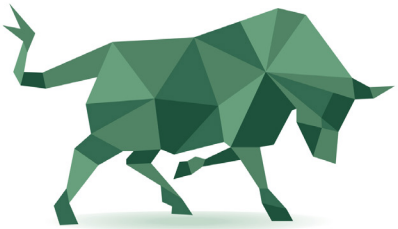
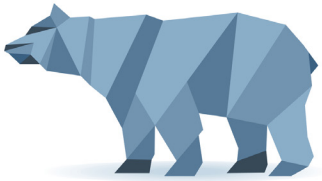
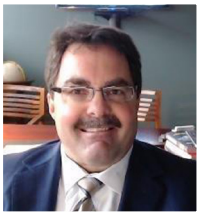
Braeburn Observations

March 13, 2018





Michael A. Poland, CFA®



CEO & Founder
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Many people spend time trying to find the one or two key indicators that will drive the market or are responsible for its recent movement. Financial media loves to attribute a day's movement in over 10,000 individual stocks to one key item, such as a cabinet member leaving the President's cabinet, or a proposed tariff. Of course, those items are reflected in the market to some extent, but they are just as often eclipsed by new news the following day.

The best way to follow the market is to do just that, follow the market, not the news. The stock market discounts all of the news and moves accordingly. We don't have to know such news, just that the market continues to move in a trend, and/or that a trend has changed course. With this knowledge we can stay fully invested or change our investment allocations.

U.S. MARKETS

The Nasdaq Composite hit a new record, and all of major U.S. indexes were brought back into positive territory year-to-date following a strong rally on Friday. The technology-heavy NASDAQ fared the best of the major indexes while the small-cap Russell 2000 also performed especially well. The Dow Jones Industrial Average added almost 800 points last week, rising 3.3% and closing at 25,335.74. The Nasdaq Composite rose 4.2% and closed at 7,560—an all-time high. By market cap, small caps outperformed large caps with the small cap Russell 2000 and mid cap S&P 400 gaining 4.2% and 3.8%, respectively, while the large cap S&P 500 added 3.5%.

INTERNATIONAL MARKETS

Canada's TSX reversed most of last week's losses rising 1.3%. In Europe, major markets were all in the green. The United Kingdom's FTSE added 3.8%, France's CAC 40 rose 2.7%, and Germany's DAX gained 3.6%. In Asia, China's Shanghai Composite rebounded 1.6% from last week's close and Japan's Nikkei finished up 1.4%. As grouped by Morgan Stanley Capital International, developed markets added 2.0% while emerging markets gained 3.4%.

U.S. ECONOMIC NEWS

According to the Labor Department, the U.S. added 313,000 new jobs in February. This was a blowout that crushed expectations. Economists had been expecting nonfarm payroll growth of only 200,000. In addition, the Labor Department reported an increase in the labor force participation rate to its highest level since September, with the total employed up 785,000 to a record 155.2 million. Greg Peters, senior investment officer at PGIM Fixed Income stated, "The underlying economic growth is quite strong, but there's no real pressures from a wages and inflation standpoint. It's very good for risk assets." In the details of the report, construction jobs led the way with 61,000 new positions, followed by retail and professional and business services (50,000 each). And it appears inflation may be held in check for a bit longer, wage growth came in less than expected, up just 0.1% for the month.

After setting a nearly 50-year low last week, jobless claims jumped this week by 21,000 to 231,000, but remained far below the 300,000 threshold that analysts use to indicate a healthy jobs market. Last week's level of claims was its highest in six weeks. Economists had expected only 220,000 new claims. The less-volatile monthly average of claims ticked up 2,000 to 222,500, still just slightly above a 50-year low. Continuing claims, which counts the number of people already receiving benefits, fell by 65,000 to 1.87 million. That number is reported with a one-week delay.

In a separate report concentrating solely on private-sector employment, payroll processor ADP reported data from its latest survey showed the jobs market was "red hot". ADP reported the economy added 235,000 private-sector jobs last month, its fourth consecutive month of plus 200,000 job gains. Economists had expected an increase of only 205,000 private-sector jobs. In the details of the report, small firms added 68,000 jobs, medium-sized businesses added 97,000, and large companies added 70,000. Job gains were led by the retail and leisure/hospitality sectors as consumer spending remained strong. Mark Zandi, chief economist of Moody's Analytics remarked, "The job market is red hot and threatens to overheat."

Despite the continued labor shortage and higher prices, businesses in the services sector are continuing to grow rapidly, according to the Institute for Supply Management (ISM). ISM's non-manufacturing survey of service-oriented companies such as hospitals, retailers, and restaurants, fell 0.4 point to 59.5 last month after hitting its highest level in nearly 12 years. Readings over 50% are viewed as

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positive for the economy, while anything over 55% is considered exceptional. In the details of the report, the index for employment fell 6.6 points to 55, while the index for new orders hit a 12-year high of 64.8. 16 of the 17 industries tracked by ISM said their businesses were expanding. Overall, the report shows the economy continues to be on strong footing, so much so that companies increasingly complain about a shortage of skilled workers and supply cost increases. It is widely feared that if the cost of labor and materials continue to rise, the Federal Reserve may have to raise interest rates more rapidly, a potential brake on the economy.

The borrowing of the nation's consumers slowed in January, according to the Federal Reserve. Total consumer credit increased by $13.9 billion to a seasonally-adjusted record $3.85 trillion—an annual growth rate of 4.3%. That was down from $19.2 billion in December and the smallest gain since September. In the details of the report, revolving credit, which includes credit card spending, slowed dramatically in January - up just 0.8% - following December's 7.2% gain. It was its smallest gain since February of 2015. Non-revolving credit, which includes auto and student loans, rose 5.6% in January, its second month of gains.

The U.S. trade deficit rose 5% in January, hitting a nearly 10-year high and continuing its steady rise since President Trump took office. The deficit was up 16% compared to the same time last year. Imports remained unchanged at $257.5 billion, with the biggest increase in petroleum imports in three years offset by declines in cellphones, computer chips, and other consumer goods. Exports were down 1.3%, primarily due to a big drop in shipments in the volatile commercial aircraft sector. The high U.S. trade deficit has been a major concern for President Trump who has vowed to bring it down sharply. Michael Pearce, senior U.S. economist at Capital Economics released a note stating, "The increase in the trade deficit to a nine-year high ... suggests that net trade will once again be a drag on economic growth in the first quarter and will only add fuel President Donald Trump's protectionist rhetoric in recent weeks."

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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