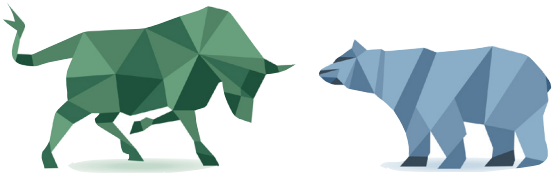
August 6, 2018

Braeburn Observations



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LOWRY'S 8/3/18

Measures of breadth and Supply/Demand continue to support an ongoing, healthy bull market.

U.S. MARKETS

The broader U.S. stock market indexes were generally up for the week as Apple lifted the information technology sector out of a brief slump. Apple became the first company to reach $1 trillion in market capitalization after its stock rallied more than 8% in the days following its earnings release. The Dow Jones Industrial Average added 11 points, or 0.05%, to close at 25,462. The technology-heavy NASDAQ Composite shrugged off early weakness and surged 74 points to close at 7,812, a gain of 1.0%. By market cap, mid caps were the clear leader with the S&P 400 mid cap index adding 1.3%, while the large cap S&P 500 and small cap Russell 2000 indexes added 0.8% and 0.6%, respectively.

INTERNATIONAL MARKETS

Canada's TSX added 0.2%, rebounding from last week's 0.3% loss while the United Kingdom's FTSE retreated -0.6%. On Europe's mainland, France's CAC 40 slipped -0.6%, Germany's DAX dropped 1.9%, and Italy's Milan FTSE ended down -1.7%. In Asia, China's Shanghai Composite plunged -4.6%, while Japan's Nikkei was off -0.8%. As grouped by Morgan Stanley Capital International, developed markets fell 1%, while emerging markets were off -1.1%.

U.S. ECONOMIC NEWS

Initial claims for new unemployment benefits inched up by 1,000 to 218,000 last week remaining below economists' forecasts of a 220,000 reading. Claims haven't been this low since the early 1970's. The less volatile monthly average of new claims dropped by 3,500 to 214,500—its second lowest reading in the past nine years. Healthy consumer spending and business investment helped propel the economy to a 4.1% rate of growth in the spring. The strong growth has led to more hiring and knocked unemployment down to its lowest level in 18 years. The number of people already collecting unemployment benefits, known as "continuing claims", declined by 23,000 to 1.72 million. That number is almost a quarter of a million lower compared to the same time last year.

Private U.S. employers created an additional 219,000 new jobs in July, according to private payroll processor ADP. The increase in hiring was the strongest since February and blew away expectations of only a 173,000 increase. Despite widespread complaints of labor shortages, private-sector hiring remained strong. In the details of the report, small businesses created 52,000 jobs in July, medium-sized firms added 119,000 and large corporations filled 48,000 positions. The report from ADP is often used to get an indication of the Labor Department report that comes later in the week. In this case it was spot-on. The Labor Department reported another solid jump in hiring last month, showing that companies are still actively looking for workers to meet the needs of the rapidly expanding U.S. economy. Some 157,000 new jobs were created last month even as businesses continued to complain about the shortage of skilled labor. White collar professional firms added 51,000 jobs last month, while manufacturers filled 37,000 jobs and health care providers added 34,000. Bars and restaurants boosted staff by 26,000. The financial industry and government were the only industries to trim employment. Banks and insurers cut 5,000 jobs, while government jobs declined by 13,000. Overall unemployment slipped to 3.9% - nearly a two-decade low.

Pending home sales, which measures the number of real-estate transactions in which a contract has been signed but hasn't yet closed, ticked up 0.9% in June, the National Association of Realtors (NAR) reported. However, of concern is that June's number was lower than year-ago levels for the sixth month in a row, this time by 2.5%. Economists' had forecast a 0.8% increase for the month. Analysts note that the housing market appears to be in a continuous state of demand overwhelming supply, which limits sales. Still, June marked the first inventory increase in three years and that most likely helped pending-home sales, said the NAR. All four regions reported increases in pending home sales for June. The Northeast jumped 1.4%, the Midwest

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added 0.5%, the South gained 1.1%, and the West rose 0.7%.

Home prices across the country continued to moderate last month, according to the monthly S&P/Case-Shiller report. The S&P/Case-Shiller national index rose a seasonally-adjusted 0.4% in May, up 6.4% for the year. The more narrowly focused 20-city index rose a seasonally-adjusted 0.2%, up 6.5% from the same time last year. Overall, home prices are still climbing, running well ahead of wage gains and inflation, but the rate of growth is leveling off. In the three-month period ending in May, three cities had percent annual price increases in the double digits—Las Vegas, San Francisco, and Seattle. None of the 20 cities studied had monthly declines, though prices in New York were flat.

The Federal Reserve's preferred inflation measure, the Personal Consumption Expenditures (PCE) price index, rose just 0.1% in June, along with the core rate which strips out the volatile food and energy sectors. Per this measure, the rate of inflation remained 2.2% last month, matching its six-year high. After a series of steady increases, inflation appears to have crested—at least for now. The yearly core rate also remained unchanged at 1.9%. Chris Low, Chief Economist at FTN Financial stated, "Both wages and inflation were tame in the second quarter after popping higher. Consumers find themselves in much better shape than previously reported with more income…and a much higher saving rate than you'd expect to see this far into a business cycle expansion."

Analysts say that the Federal Reserve has signaled another rate hike may be coming soon, as the word "strong" appeared throughout its latest statement. This week, the Federal Reserve upgraded its assessment of the economy but voted unanimously to hold its benchmark federal-funds rate in the range of 1.75% and 2%. In its Federal Open Market Committee (FOMC) statement, the Fed noted that job gains and economic activity has been "strong". The Fed wrote, "The FOMC expects that further gradual increases in the target range for the federal funds rate will be consistent with sustained expansion of economic activity, strong labor market conditions, and inflation near the committee's symmetric 2% objective over the medium term." Analysts note that the language suggests another tightening in September. Since the Fed's last meeting, the government reported the economy grew at a solid 4.1% annual rate in the second quarter.

Confidence among the nation's consumers rose in July to 127.4, up 0.3 point from the prior month, according to The Conference Board. July's reading sits just below the recent peak of 130 and is one of the highest readings in 18 years. In the details, the Present Situation Index, which measures how people feel the economy is doing right now, rose to 165.9 from 161.7. However, their views of the future slipped. The Expectations Index that looks six months into the future retreated 2.3 points to 101.7. Lynn Franco, director of economic indicators at the board made note of the weakness, writing "while expectations continue to reflect optimism in the short-term economic outlook, back-to-back declines suggest consumers do not foresee growth accelerating."

The U.S. trade deficit rose in June, marking its first increase in four months as the U.S. remains on track to post its largest annual trade gap in a decade despite U.S. President Donald Trump's escalating tariffs. The deficit rose 7% to $46.3 billion in May, the Commerce Department reported; economists had forecast a slightly larger $46.6 billion gap. So far this year, the trade deficit adds up to $291 billion, compared to $272 billion in the first half of 2017. U.S. exports dropped 0.6% to $213.8 billion a month after hitting a record high. The biggest drop was in new cars and trucks, with exports of drugs, jewelry, and passenger planes also declining. Soybean exports surged again following a similar spike in May as buyers sought to stock up before tariffs took effect. Soybean shipments were nearly 50% higher in the first six months of the year compared to the same time in 2017. Pantheon Macroeconomics Chief U.S. economist Ian Shepherdson notes, "Exports will rise over the quarter, but strong domestic demand growth will lift imports more rapidly."

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.

BRAEBURN Wealth Management