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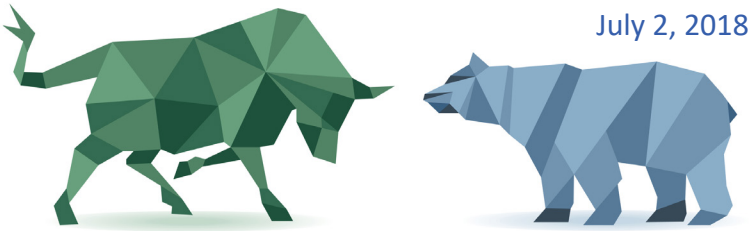
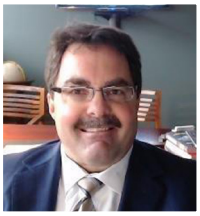
Braeburn Observations

July 2, 2018



Michael A. Poland, CFA®



CEO & Founder
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LOWRY'S 6/22/18

The Market continues to exhibit all the hallmarks of a broad-based primary uptrend supported by long-term trends of expanding Demand and contracting Supply. Even the strongest bull markets are subject to periodic short-term corrections. However, for investors with a longer-term view of the market, such corrections historically offer ideal opportunities for new buying.

U.S. MARKETS

Stocks closed lower for the week as the tech-heavy NASDAQ Composite and smaller-cap indexes reversed their prior-week outperformance. The Dow Jones Industrial Average lost 309 points on the week closing at 24,271, a decline of 1.3%. The NASDAQ Composite retreated -2.4% closing at 7,510. By market cap, the large cap S&P 500 finished down -1.3%, while the mid cap S&P 400 and small cap Russell 2000 were off -1.9% and 2.5%, respectively.

INTERNATIONAL MARKETS

Canada's TSX retraced all of last week's gain falling -1%. Across the Atlantic, the United Kingdom's FTSE retreated -0.6%, while on Europe's mainland it was a sea of red. France's CAC 40 ended down 1.2%, Germany's DAX was off -2.2%, and Italy's Milan FTSE finished down -1.2%. It was a similar story in Asia. China's Shanghai Composite fell an additional -1.5%, its' sixth consecutive down week. Japan's Nikkei 225 retreated -0.9%. As grouped by Morgan Stanley Capital International, developed markets were off -1.2%, while emerging markets finished down -1.3%.

U.S. ECONOMIC NEWS

The number of applications for new unemployment benefits rose for the first time in a month last week, according to the Labor Department. Initial jobless claims climbed by 9,000 to 227,000 in the week ended June 23. The reading exceeded economists' forecasts of 220,000 new claims. Despite the slight increase, initial claims remain near their lowest level in almost fifty years. The more stable monthly average of new claims rose by a lesser 1,000 to 222,000. Companies continue to report difficulty in finding qualified labor. Continuing claims, which counts the number of people already receiving unemployment benefits fell by 21,000 to 1.71 million. That number is reported with a one-week delay.

Sales of new homes rebounded last month as healthy demand lifted sales 8.8% higher than in the same year-to-date period last year. The Commerce Department reported new home sales ran at a seasonally-adjusted annual rate of 689,000 in May. Consensus forecasts were for a selling pace of just 668,000. The median sales price of a new home in May was $313,000. At the current sales rate, there is a 5.2 months' supply of homes on the market, down slightly from April. The biggest challenge for the housing market continues to be the lack of supply in the market. Stephen Stanley, chief economist for Amherst Pierpont Securities noted that the average sales pace for 2017 was 613,000 per month, and that "it appears that a gentle uptrend remains in place."

Prices of homes are also on the rise. The S&P/Case-Shiller national index rose a seasonally-adjusted 0.3% in April and is up 6.4% for the year. The more narrowly-focused 20-city index rose a seasonally-adjusted 0.2% and is up 6.6% compared to a year ago. While April's pace of growth is still robust, with home prices exceeding inflation and wage growth, both the national index and 20-city index were down one tick from March's reading. In April, three cities saw double-digit annual gains— the usual suspects: Seattle, San Francisco, and Las Vegas. As of the latest reading, 10 out of the 20 cities tracked were higher than their peaks reached in 2006. In its release, S&P Dow Jones Indices, the producer of the indexes, noted that Las Vegas is "the city with the longest road to a new high." Adjusted for inflation, Vegas is still 47% lower than its bubble-era peak, despite being one of the hottest markets for several recent months. The only metro area to show a monthly decline in April was New York, where recent tax law changes and a glut of new apartment supply may be weighing on housing.

The National Association of Realtors (NAR) index of pending home sales declined 0.5% to a four-month low of 105.9 in May. The index tracks real-estate transactions in which a contract has been signed but the transaction has not yet closed. The reading missed the Econoday forecast of a 0.6% increase and is down 2.2% from the same time last year. This decline marks the fifth straight month of negative

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year-over-year readings. The NAR's Chief Economist Lawrence Yun noted the story in the housing market continues to be about supply, not demand. "Realtors in most of the country continue to describe their markets as highly competitive and fast moving, but without enough new and existing inventory for sale, activity has essentially stalled."

Overall growth in the U.S. economy remains strong, just not as much as originally reported. In its latest revision, the Commerce Department reported growth in the first quarter was trimmed to 2% from 2.2%, in large part due to lower spending on health care and a somewhat smaller buildup in inventories. The softer GDP reading in the first quarter is essentially a moot point now that the U.S. economy roared back in the spring with some estimates predicting it will achieve its fastest quarterly growth in 15 years. Of note, consumer spending, the trendsetter for the broader economy, was revised down a tick to a gain of 0.9%, while nonprofits spent less on healthcare and households spent less on financial advice and insurance. Business spending, however, was revised upward as fixed investment rose 7.5% instead of the 7.2% previously reported. Most other figures in the GDP calculations were little changed.

U.S. inflation has finally hit the Federal Reserve's 2% target - the first time in six years. The Personal Consumption Expenditures (PCE) index, the Fed's preferred inflation gauge, rose 0.2%, along with the core rate that strips out the often-volatile food and energy sectors. The rate of inflation over the past 12 months rose to 2.3%, its fastest pace since March 2012, while the core rate hit 2% - the Fed's longstanding target. In addition, the Commerce Department reported consumer spending rose 0.2% in May after a 0.5% gain in April. Economists had predicted a 0.6% increase. Economists had expected inflation to hit the Fed's 2% target but not until later this summer. Fed Chairman Jerome Powell welcomed the pickup in inflation at his last press conference and said that inflation may rise above the 2% target over the next few months given higher oil prices. The Fed is picking up the pace of interest-rate hikes – it is now penciling in four increases in total this year, up from the three projected in March.

A measure of nationwide manufacturing activity turned negative in May for the first time since January. The Chicago Federal Reserve's index of national activity was reported at -0.15 last month, a significant decline from the upwardly revised 0.42 reading in April. The Chicago Fed index is a weighted average of 85 economic indicators, designed so that zero represents trend growth and a three-month average below negative 0.70 suggests the country is entering a recession. Last month, 39 of the individual components made positive contributions, while 46 were negative. In the details of the report, the production-related indicators, meaning factory activity, weighed a negative 0.29 to the index, down sharply from the positive 0.33 it added in April. The index's less-volatile three-month moving average came in at 0.19 in May—also its lowest reading since January.

Orders for good expected to last longer than three years, so-called durable goods, fell in May as demand for autos weakened. The Commerce Department reported orders for durable goods fell 0.6% in May, following a revised 0.1% decline in April. The second straight decline in demand appears to be due to the biggest drop in new orders for cars and trucks since 2015. Stripping out the often-volatile transportation categories of vehicles and aircraft, orders were off just 0.3%. Orders for autos and parts shrank 4.2% in May, the biggest drop since the first month of 2015. President Trump has threatened tariffs on Canadian and European cars amid ongoing disputes over free trade. Overall business investment slowed a bit, but the longer-term trend was still fairly healthy. So-called core orders, which strip out defense and aircraft, slipped 0.2% in May, but are up 6.8% over the past year.

The nation's consumers are still very optimistic about the U.S. economy, but a little less so than they were a month ago. The Conference Board reported its consumer confidence index slid to 126.4 this month from a revised 128.8 in May. Economists had predicted a reading of 128. The index is down slightly from its 18-year high of 130 hit earlier this year. In the details, the present situation index, which measures how the economy is doing "right now" was essentially flat at 161.1, while the expectations index that measures respondents' views six months into the future declined four points to 103.2. Lynn Franco, director of economic indicators at the board noted, "While expectations remain high by historical standards, the modest curtailment in optimism suggests that consumers do not foresee the economy gaining much momentum in the months ahead."

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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