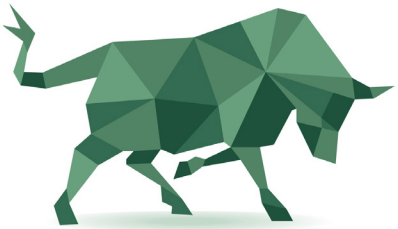
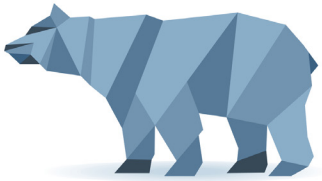
www.braeburnwealth.com

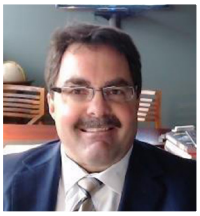
Braeburn Observations

May 29, 2018





Michael A. Poland, CFA®



CEO & Founder
Wealth Advisor
Portfolio Manager

LOWRY'S 5/29/18

Internal analysis of the stock market shows that we are in a much more bullish tone than popular indices would suggest. In fact, while the Dow Jones Industrial Average and the S&P 500 show meager gains for the year, small and mid-cap stocks are up notably as is the Nasdaq 100. Lowry's proprietary measure of "selling pressure" continues to hit new lows. Lowry's goes on to site a "strengthening balance of Supply and Demand – not good news for the bears."

U.S. MARKETS

The major U.S. market indexes finished the week flat to slightly higher in light trading ahead of the long holiday weekend. The Dow Jones Industrial Average edged up 38 points, ending the week at 24,753, a gain of 0.2%. The technology-heavy NASDAQ Composite added 1.1%, closing at 7,433. Large caps outperformed smaller caps with the large cap S&P 500 gaining 0.3% for the week, while the mid cap S&P 400 added 0.2% and the small cap Russell 2000 ending up just 0.02%.

INTERNATIONAL MARKETS

Canada's TSX gave up half of last week's gain by falling -0.5%. Across the Atlantic, the United Kingdom's FTSE also reversed last week's gain, retreating -0.6%. On Europe's mainland, markets were red across the board. France's CAC 40 ended down -1.3%, while Germany's DAX and Italy's Milan FTSE gave up -1.1% and -4.5%, respectively. China's Shanghai Composite retreated -1.6% alongside Japan's Nikkei which fell -2.1%. As grouped by Morgan Stanley Capital International, emerging markets rose 0.8% while developed markets were off -1.6%.

U.S. ECONOMIC NEWS

The number of people seeking new unemployment benefits rose to a 7-week high, but analysts were quick to point out that the increase is probably tied to seasonal swings in education-related employment such as cafeteria workers and bus drivers. The Labor Department reported that initial jobless claims rose by 11,000 to 234,000 last week, exceeding economists' forecasts of a reading of 219,000. The less-volatile monthly average of new claims rose by 6,250 to 219,750. The nationwide unemployment rate remains at an extremely low 3.9%. Continuing claims, which counts the number of people already receiving unemployment benefits, increased by 29,000 to 1.74 million. That number is reported with a one-week delay.

Sales of newly-constructed homes slipped in April, down 1.5% from March but still up 11.6% from the same time last year. The Commerce Department reported new homes were at a 662,000-selling pace, missing economists' estimates of 682,000. Year-to-date sales are 8.4% higher than in the same period in 2017. The median sales price of a new home last month was $312,400—0.4% higher than a year ago. The slightly slower sales pace caused the available inventory to creep up. There is currently a 5.4 months' supply of homes available on the market, still below the 6 months generally considered to be a balanced housing market.

Sales of existing homes dropped more than expected in April, as a shortage of property available for sale continued to weigh on the market. The National Association of Realtors (NAR) reported existing home sales fell 2.5% to a seasonally-adjusted annual rate of 5.46 million homes last month. Last month's decline was the first in three months. Year-on-year, existing home sales were down 1.4%. By region, sales were down the most in the Northeast which saw a decline of 4.4%. In the South, sales were down 2.9% and in the West they were down 3.3%. The Midwest region was unchanged. At April's sales pace, it would take 4.0 months to clear the current inventory, down from 4.2 months a year ago. The median house price increased 5.3 percent from one year ago to $257,900 in April. It marked the 74th straight month of year-on-year price gains.

A measure of U.S. economic activity from the Chicago Federal Reserve ticked up last month as a stronger performance from factories and a robust labor market helped offset slight weakness in the housing market. The Chicago Fed's National Activity Index was a positive 0.34 in April, up from 0.32 in March. The index's less-volatile three-month moving average registered a positive 0.23 last month, up from 0.11. Production-related indicators, which measures manufacturing and factory activity, contributed a positive 0.27 to the index, up from 0.19 in March. Employment-related indicators added 0.10. Of note, the contribution of personal consumption and housing was negative 0.05 in April. The Chicago Fed's National Activity index is a weighted average of 85 economic indicators, designed so that zero represents trend growth and a three-month average below -0.70 indicates a recession has begun.

Continued on page 2

3597 Henry Street, Suite 202
Norton Shores, Michigan 49441
231.720.0743 Main
866.577.9116 Toll free
info@braeburnwealth.com

BRAEBURN
Wealth Management

Continued from page 1

Orders for goods designed to last at least three years, so-called 'durable goods', fell 1.7% last month, but the decline was almost entirely due to a drop-in contracts for Boeing airplanes. Stripping out the outsized effects of planes and cars, orders minus transportation was actually up 0.9%, marking its third consecutive month of gains. In the details, orders for commercial jets plunged 29% in April, following a 61% spike in March. Aside from that gyration, orders for most durable goods rose. In a positive sign for the future, orders for core capital goods rose 1% last month and are up almost 7% in the past 12 months. That's an indication that companies have stepped up their spending for equipment after several years of weak investment.

Along with the Chicago Fed's index, research firm IHS Markit reported its flash U.S. Manufacturing Purchasing Managers index (PMI) ticked up 0.1 point to 56.6 this month, touching its highest level since September of 2014. The data showed strong gains in manufacturing production and new business, with signs that manufacturers intend to boost production schedules in the near future. In the services sector, where most Americans are employed, the PMI specifically for services also increased. IHS Markit's flash U.S. services PMI climbed 0.9 point to 55.7 last month. That reading is at a three-month high. There was a slight slowdown in new business but the backlog of work was the highest since March of 2015. Of note, inflation pressures were evident in the data with input costs measured across both manufacturing and services sectors rising at their fastest rate in nearly five years.

Sentiment among the nation's consumers came in weaker than expected in the final reading for May. The University of Michigan's survey of consumer attitudes dipped to 98.0 from 98.8, missing economists' expectations of a 98.9 reading. Richard Curtin, chief economist of the survey, said in a statement, "The May survey, however, found that consumers anticipated smaller income gains than a month or year ago, even though they anticipate the unemployment rate to stabilize at its current 18-year low." Overall, Americans remain optimistic about the economy. Incomes are rising, job openings are at a record high, and layoffs and unemployment are at their lowest levels in decades. The index measures 500 consumers' attitudes on future economic prospects, in areas such as personal finances, inflation, unemployment, government policies and interest rates.

Minutes from the latest Federal Reserve Open Market Committee meeting revealed support for a rate hike in June and that the committee was not concerned about inflation pressures at the moment. The minutes stated, "Most participants judged that if incoming information broadly confirmed their economic outlook, it would likely soon be appropriate for the FOMC to take another step in removing policy accommodation." Although inflation hit the Fed's 2% target in its latest reading in March, officials were not convinced it would remain there for long. "It was noted that it was premature to conclude that inflation would remain at levels around 2%, especially after several years in which inflation had persistently run below the Fed's 2% objective," the minutes said. Only a "few" officials thought inflation might move "slightly" above the 2% target. Traders in the federal funds futures market see more than a 90% chance of a June rate hike.

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.

Bull and Bear Paperfold by: © Norbert Buchholz.Dreamstime.com

BRAEBURN Wealth Management