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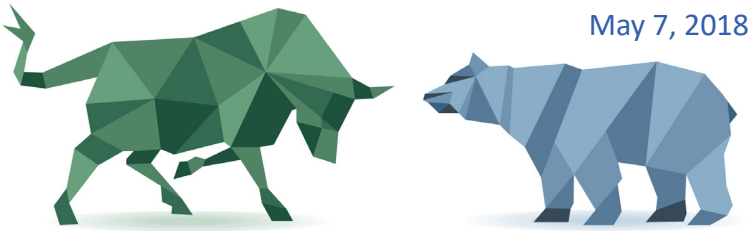
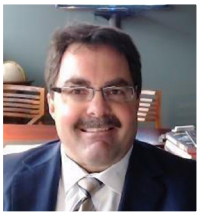
Braeburn Observations

May 7, 2018



Michael A. Poland, CFA®



CEO & Founder
Wealth Advisor
Portfolio Manager

I'm going off track in my intro to this week's Braeburn Observations with an endorsement of what I think is a great tool of the modern era: Google Alerts. If you've never used Google Alerts, you might try it for the topic of your choice. I like to use it for research.

With Google Alerts, Google allows you to put an alert on any topic you like. You might want to have one on "Polka Dancing" "Michigan" (that's for you, Gene). Buy using the quotes (" "), Google will send you a link to any article that it comes up with that has those exact terms typed inside the quotation marks. You can have them sent to your preferred e-mail address daily or weekly.

I have Google Alerts on several famous economists and investment professionals. My alert on "David Einhorn" just provided this piece of interesting reading:

https://www.nationofchange.org/2018/05/05/how-wall-street-enabled-the-fracking-revolution-thats-losing-billions/

Maybe you want to put an alert on a favorite sports team, favorite player, or a lawn and gardening guru that you follow. Or, wanting to learn more about the topic perhaps you want one on "Blockchain", the technology behind bitcoin (I'm still trying to wrap my head around this topic.

Start by googling the term "Google Alerts" and following the instructions. It is a fun way to cut through the garbage and get useful information on topics of interest to you.

U.S. MARKETS

The major U.S. stock indexes ended the week in mixed fashion, helped by a strong finish to the week that mostly compensated for a poor start. The NASDAQ Composite performed the best, helped in particular by a strong performance by heavily-weighted Apple. The Dow Jones Industrial Average finished the week down 48 points closing at 24,262, a loss of -0.2%. The NASDAQ Composite rose 89 points, or 1.3%, ending the week at 7,209. By market cap, smaller cap stocks ended the week in positive territory with the small cap Russell 2000 adding 0.6% and the mid cap S&P 400 index rising 0.3%, while the large cap S&P 500 declined -0.2%.

INTERNATIONAL MARKETS

Canada's TSX rallied for a fourth consecutive week, ending the week up 0.4%. An even longer winning streak is found in the United Kingdom's FTSE, which rose a sixth straight week, up 0.9%. Markets were also positive on Europe's mainland, where France's CAC 40 gained 0.6%, Germany's DAX surged 1.9%, and Italy's Milan FTSE gained 1.7%. In Asia, China's Shanghai Composite rose for a second week adding 0.3%, while Japan's Nikkei ended the week flat. Most international markets were negative, however, did not do nearly as well as the "headline" markets mentioned above. As grouped by Morgan Stanley Capital International, developed markets finished the week down -0.1%, while emerging markets slipped -1.8%.

U.S. ECONOMIC NEWS

After falling to its lowest level since 1969 last week, initial jobless claims rebounded only slightly to 211,000, according to the Labor Department. The reading was still far below the average of 225,000 forecast by economists. The more stable four-week average of claims decreased by 7,750 to 221,500—its lowest reading since March of 1973. Looking at the big picture, the U.S. labor market is in its best shape of the nine-year economic expansion. The low level of claims suggests that solid job growth will continue and the unemployment rate will continue to fall. Continuing claims, which counts the number of people already receiving unemployment benefits, fell by 77,000 to 1.76 million.

The unemployment rate fell to a 17-year low and the U.S. added 164,000 new jobs in April, according to the Bureau of Labor Statistics' Non-Farm Payrolls report. The nation's unemployment rate fell 0.2% to 3.9%, after holding at 4.1% for six months in a row. The increase in new jobs was led by professional businesses, which added 54,000 workers. Hiring also rose among health care providers and manufacturers, each of which added 24,000 jobs. Construction firms increased payrolls by 17,000. The tight labor market is also evident in the so-called "real" or "U-6" unemployment rate. The U6 rate also includes people who can only find part-time work and those that are no longer looking for a job. The U6 rate fell to 7.8% in April, the first time it's dropped below 8% since 2006.

Construction activity slipped 1.7% in March, with public sector construction project spending little changed, but private sector spending falling 2.1%, according to the Commerce Department. Residential construction spending is 3.5% lower for the month, but still up 5.3% from the same time last year. Total construction spending year-to-date is 5.5% higher than the same period

Continued on page 2

The *Braeburn Observations* is our means of sharing with clients and interested parties what it is we are reading in our research. These are research items, news and statistics that are being considered as we make investment decisions for our clients. Items noted do not necessarily drive an investment decision in and of itself. We are trying to make the best decisions we can given all that we are looking at. We also highlight key financial metrics that will provide a "point in time" glimpse of how the financial markets are behaving. Again, it is often the trend in these metrics and/or anticipated movements that drives our decision making in our clients' portfolios. All observations are taken at a point in time and should not be used to infer our opinion or to rely upon as a matter of fact that we are currently acting upon.

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Wealth Management

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Continued from page 1

in 2017. Stephen Stanley, Chief Economist at Amherst Pierpont Securities, attributed the weakness to the weather noting, "Construction spending was quite soft in March, falling by 1.7%, likely reflecting at least in part the difficult weather during the month. I continue to look for a sizable bounce back in construction activity in the spring, as weather delays dissipate."

Spending by the nation's consumers increased 0.4% in March after remaining unchanged in February, the Commerce Department reported. On an annualized basis, consumer spending grew at a 1.1% annualized rate in the first quarter—its slowest in almost five years. Data showed Americans spent more on new cars and trucks and paid more to heat and power their homes. Consumer spending accounts for roughly two-thirds of the nation's economic activity.

A gauge of manufacturing activity in the Chicago region ticked higher in April but remained well below its year-to-date high. The Chicago Purchasing Managers' Index for April came in at 57.6, missing economists' expectations for a reading of 59.3 and not rebounding nearly as much as economists had hoped from March's plunge. While the report still indicates healthy activity, as readings above 50 indicate improving conditions, the last two months' readings are down significantly from last winter. The new-orders growth hit a concerning 15-month low.

Nationwide, manufacturers grew at a slower pace in April, hindered by higher prices for raw materials such as steel and continued skilled labor shortages, according to the Institute for Supply Management (ISM). The ISM manufacturing index fell to 57.3 last month, down 2 points from December. The reading missed economists' forecasts who had expected a stronger reading of 58.7. In the report, most executives said their firms are growing and business is still very strong, but they complained about higher prices for steel following the recent U.S. tariffs. The cost of other materials also continued to rise, and many firms continue to report difficulty finding workers. In the details, ISM's index for new orders was little changed at 61.2, but production fell 3.8 points to 57.2. The employment gauge slipped 3.1 points to its lowest level in almost a year. Overall the U.S. economy continues to expand at a healthy pace, now almost nine years since the last recession. Analysts note that such a long period of growth is bound to give rise to higher inflation, especially given the low unemployment rate.

The U.S. trade deficit fell to a 6-month low of $49 billion in March, but analysts note that the trade gap is unlikely to fall much further. Despite the 15% decline, the U.S. remains on track to run another large trade deficit in 2018 that exceeds the deficit of 2017. In the report, exports advanced 2% to $208.5 billion and set a new record. The U.S. shipped more petroleum, passenger planes, and agricultural products ahead of pending tariffs by China. U.S. imports dropped 1.8% to $257.5 billion as the U.S. imported far fewer consumer electronics, toys, appliances, wine and beer. The U.S. trade deficit in goods increased with all its major trading partners except China. More American-made goods were sent to China and fewer Chinese goods were received in the U.S. in March.

Inflation hit the Federal Reserve's 2% target for the first time in a year according to its preferred inflation measure and fell just short in another measure. The Federal Reserve's preferred inflation barometer, the Personal Consumption Expenditures (PCE) index reached 2% year-over-year in March, a 0.3% gain from February. In addition, the closely followed core inflation rate, which measures price increases without the volatile food and energy sectors, rose to a 12-month high of 1.9% year-over-year. That's the biggest yearly gain in the core rate since April 2012. Overall, inflation has been increasing steadily for months due to the rising cost of oil, higher home prices, and the tightest labor market in decades. While still low by historical standards, the Fed may be inclined to raise interest rates more aggressively to ensure it doesn't get out of hand.

The Federal Reserve left its key U.S. interest rate unchanged this week, but the central bank acknowledged prices were rising and that it now expects inflation to "run near" its 2% target "over the medium term". The somewhat more hawkish language by the FOMC about price levels, suggests the Fed is paying closer attention to inflation, but is not unduly alarmed. Analysts note the changes in the central bank's policy statement could boost expectations that the Fed will raise its benchmark interest rate four times this year, instead of the three previously planned. The vote to hold rates steady was 8-0.

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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