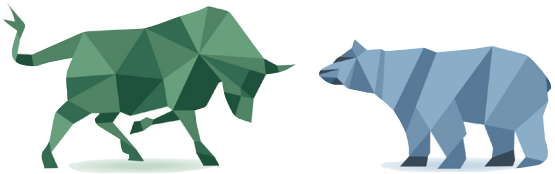
June 10, 2019

Braeburn Observations



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LOWRY'S 6/14/2019

While short-term overbought readings imply an ongoing risk for a near-term pullback, the strength of the advance from the June 3rd low suggests that any pullback should constitute only a brief interruption in the rally. And, with probabilities favoring new all-time highs in the weeks ahead, any pullback should be regarded primarily as a buying opportunity.

U.S. MARKETS

U.S. stocks kicked off the week with a strong performance on Monday on news of a trade deal between the U.S. and Mexico but lost some momentum later in the week. The Dow Jones Industrial Average rose 105 points to close at 26,089—a gain of 0.4%. The technology-heavy NASDAQ Composite added 0.7%. By market cap, the large cap S&P 500 index and small cap Russell 2000 index each rose 0.5%, while the S&P 400 mid cap index added 0.4%.

INTERNATIONAL MARKETS

Canada's TSX rose a second consecutive week, gaining 0.4%. The United Kingdom's FTSE rose 0.2%, while on Europe's mainland France's CAC 40 ticked up 0.1% and Germany's DAX gained 0.4%. In Asia, China's Shanghai Composite rebounded 1.9% from last week's decline, while Japan's Nikkei gained 1.1%. As grouped by Morgan Stanley Capital International, emerging markets declined -0.2%, while developed markets retreated -0.6%.

U.S. ECONOMIC NEWS

The number of Americans seeking first-time unemployment benefits edged up to a 5-week high of 222,000, but the overall level remains extremely low. The Labor Department reported that initial jobless claims rose by 3,000 to 222,000 last week. Economists had estimated new claims would total 218,000. The less-volatile monthly average of new claims rose 2,500 to 217,750. The number of people losing their jobs still remains near a half-century low, and far below the 300,000 level analysts use to indicate a "healthy" jobs market. Continuing claims, which count the number of people already collecting unemployment benefits, increased by 2,000 to 1.69 million. That number remains close to a 46-year bottom.

In contrast to a weak Non-Farms Payrolls employment report for May, the Labor Department's Job Openings and Labor Turnover Survey (JOLTS) reported the total number of workers hired in April rose 240,000 to a new high of 5.9 million—the highest since the Labor Department started keeping track. The total hirings were the most recorded in the data series' history going back to December 2000. On the openings front, the gap between vacancies and available workers continued to be huge. Openings for the month actually decreased slightly, falling 25,000 to 7.45 million. However, workers that the Bureau of Labor Statistics classifies as unemployed declined by 387,000 to 5.82 million, leaving the gap between available jobs and available workers at 1.63 million.

Sales at the nation's retailers improved for a third consecutive month as worries of a weakening economy seemingly had no effect. The Commerce Department reported U.S. retail sales increased 0.5% with broad-based gains. Economists had expected a gain of 0.7%. In addition, April's sales were revised to a 0.3% gain from the initial report of a -0.2% fall. Almost all categories showed solid gains in May. The only declines were food and beverage stores, department stores, miscellaneous stores and clothing. Ian Shepherdson at Pantheon Economics stated, "The consumer is firmly back on track: the first quarter's softness was misleading."

Sentiment among the nation's consumers declined this month, mostly due to tariff concerns. The University of Michigan said its consumer-sentiment index in June fell 2.1 points to 97.9. Economists had expected a reading

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of 98. A rise in the current conditions component of the index was tempered by a decline in the index of consumer expectations. In the details, the index for expectations over the next 6 months dropped sharply as consumers raised concerns about tariffs (at the time of the survey there was the possibility of tariffs being levied against Mexico). Of note, negative opinions of tariffs were spontaneously made by 40% of surveyed consumers in early June, almost double the percentage from May.

The National Federation of Independent Business (NFIB) reported optimism among small-business owners continued to rise in May, hitting a "historical high". The NFIB's index rose 1.5 points to 105.0, exceeding economists' forecasts of a 102.0 reading. In the details, six of the ten survey components increased, three were unchanged, and only one fell. Nearly two-thirds reported either "hiring" or "trying to hire", a 5-point increase from April, but over half reported "few or no qualified applicants"—an increase of 5%. In its release, the group said, "It is important to keep policy focus on the small business half of the economy to ensure that it is not dissuaded from investing and hiring because of 'policy oversight' - like not making the tax cuts permanent."

Prices at the wholesale level barely rose according to the latest data from the Bureau of Labor Statistics. The Producer Price Index ticked up just 0.1% in May, matching economists' forecasts. More notably, the increase in wholesale prices over the past year slowed to 1.8% from 2.2%, down sharply from the 3.1% seen last summer. In the details, the cost of services rose 0.3%, while the cost of goods dropped 0.2%. Wholesale gasoline fell 1.7% and food costs declined 0.3%. Food costs have declined in four of the past five months. Scott Brown, chief economist at Raymond James stated, "The report suggests limited pipeline inflationary pressures. A softer global economy may be putting downward pressure on pipeline inflation in supplies and material, partly offsetting the impact of tariffs."

Inflation also remained tame at the consumer level. Consumer prices rose just 0.1% in April--its smallest increase in four months. The reading was the smallest increase since January and matched forecasts. In addition, the annual rate of inflation for April fell to 1.8%, down 0.2% from March. Another closely watched measure of inflation that strips out food and energy, the "core rate", also advanced a meager 0.1% last month. The yearly increase in the core rate slipped to 2% from 2.1% — right in line with the Federal Reserve's target for inflation.

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